

Nation's Business

October 1961 Vol. 49 No. 10

Published by the Chamber of Commerce of the United States
Washington, D.C.

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Economic recovery, war jitters are having a whipsaw effect on management; expert sees big future expense for training

23 TRENDS: Time to ask, "What can I do?"

Mounting Soviet menace increases need for greater public participation in solving our country's national problems

27 TRENDS: To share wealth—first create it

Dilemma which forced Britain to join the Common Market is similar to the problem Kennedy Administration must face

31 White House studies changes in business role

Three actions in Washington likely to affect amount of work government hires out to businesses and universities

34 Back missiles with will to fight

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38 Union power faces new challenge

Curbs on labor monopolies will be pushed in Congress next session; here is the legislation supporters want, and why

40 How to satisfy the boss

Survey discloses qualities which superiors consider most valuable; these tips tell what to do and what to avoid

42 HOW'S BUSINESS? Today's outlook

Congress postpones action until next year on tax reform, labor legislation and other measures vital to businessmen

58 After Berlin—what next

Five leading authorities on Soviet affairs predict coming maneuvers in Cold War, pinpoint future communist targets

83 PERSONAL OUTLOOK: Dividends head for new peak

What record profits will mean to shareholders in the year ahead; how to take advantage of investment opportunities

94 Understand what you hear

Men who grasp what the boss means get ahead faster; here are five practices that will help you to improve this skill

101 SPECIAL LETTER: Attack on profits

Business pickup puts spotlight on higher profits, but there is a bigger threat if unions get a voice in profit sharing

106 Let emotions help you sell

Latest approach to training for salesmen puts emphasis on better understanding of customer's needs as a human being

116 Should your city's growth depend on Washington

Department of Urban Affairs and Housing would give the federal government effective control over the people's lives

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ANNOUNCING THE 1

FROM 1/2-TON PICKUP TO DIESEL POWER, Dodge trucks for 1962 feature more than 50 engineering advances to make them tougher, more tight-fisted. ■ And they're on display right now at your Dodge dealer's, priced to compete with every full-size truck rolling the road. ■ Whatever your trucking job, there's a tough Dodge to do the job better, faster, more economically.



1962 DODGE P300 FORWARD CONTROL

WASHINGTON BUSINESS OUTLOOK

Little-known fact about unemployment:

There are almost as many boys and girls between ages 14 and 19 listed in government statistics as unemployed as all the jobless men and women between ages 45 and 65.

One out of every four jobless workers is a teen-ager.

Boosting the number of men in uniform will make only a small dent in jobless total.

Military services want good young men but know they can't count on finding them among pool of jobless teen-agers.

Here's why:

Most jobless youngsters have little or no work experience. Only a few have any job training at all.

Many have dropped out of school before completing high school, some even before eighth grade.

These young men don't fit industry's need for trained personnel.

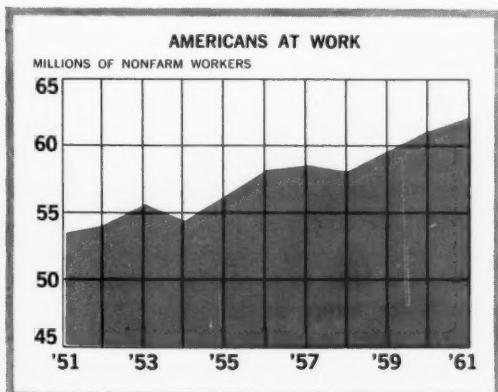
Neither do they fit military talent needs.

Nation's real economic growth is shown by increasing number of Americans with jobs.

Number at work in nonfarm jobs was never higher for this time of year.

Total now is 3.4 million above five years ago.

It's 7.7 million above 10 years ago.



Coming this month: An important decline in unemployment.

Picture is brightening faster than Washington thought only a short time ago.

More than five million workers were jobless just a few weeks ago.

Estimate is the number will fall to about 3.5 million this month.

Note: Watch for announcement of this new unemployment total to be made in Washington by the Department of Labor during the first week in November.

Looking further ahead, unemployment during winter months will make other shifts.

First, it'll inch up again on the heels of improvement this month.

As snow flies, winter sickness and bad weather will keep many workers off jobs.

By snow-melting time next spring a new pickup in employment opportunities will get under way.

Forecast: Unemployment a year from now will be down to about four per cent.

That compares with jobless rate just under seven per cent since last December.

Business spending for plant modernization and expansion will soon begin picking up at a faster pace.

Survey shows most of the investment will go into cost-reduction equipment.

Chief aim is to improve industry's profit-making capabilities.

These trends are indicated:

Total outlay for new plant and equipment last year was \$35.7 billion.

But spending went down early this year.

It's likely to total about \$34.5 billion.

Now it's headed up again.

Next year the outlay will rise more, going up to about \$37 billion.

Growing optimism marks business mood.

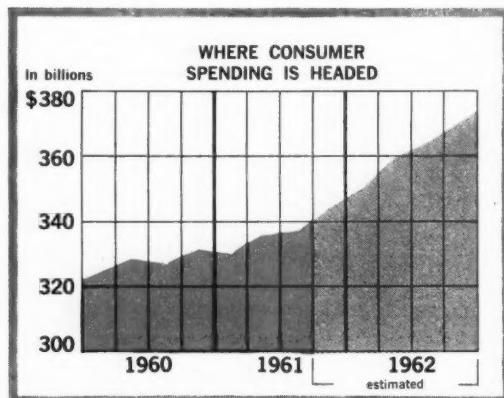
Look at consumer buying trends. Forecast

shows expanding trend running through this year and next.

Here's projection:

Total personal consumption will rise from \$331 billion annual rate at the beginning of '61 to an estimated rate of \$351 billion at the start of next year.

That's all spending for new cars, tires, gasoline, food, clothing, fertilizer, grass seed, musical instruments, furniture, appliances, new homes and alterations, boats, vacations, baby carriages, snow shovels—all the things Americans spend their money for.



Spending pace is headed toward \$370 billion by end of next year.

What this means to you as a businessman is that consumer sales will rise about six per cent this year, another six per cent next year.

This will provide an opportunity to improve your profits. But it's well to keep in mind that profits are made through good management—not volume alone.

Danger signal: Watch how consumer buying actually follows this projection. You can spot the warning signs of mounting inflation pressures as soon as the experts do. Here's how:

If consumer spending should rise much fast-

er than the trend now indicated, economists believe this would result from rising inflation pressures in the period ahead.

(For help in tracking inflation see future issues of Nation's Business. We'll keep you informed as new trends unfold.)

That could mean the flow of more money through your cash register—in the form of inflated dollars—without a similar rise in your profit dollars.

Economists have a name for this.

They call it profitless prosperity.

Stockpiling goods for future sales is getting under way.

You'll hear more about inventory buying in the next two or three months as new build-up gains momentum.

For your own business planning you'll want to know what trends are developing.

Here is what's happening nationwide:

Businessmen are adding to their inventories at the rate of about \$330 million a month.

That's a reversal of the trend early this year when businessmen were selling out of stocks on hand at the rate of \$380 million a month.

Government survey indicates inventories in the next two to three months will be added to at the rate of about \$500 million a month.

Could rise to \$550 million a month.

Then the trend will flatten out again to something like \$400 million a month early in the new year.

In terms of planning, this means businessmen are getting ready for biggest Christmas volume ever, with expectation that the new year will see a continuation of sales improvement.

There's this to remember about stockpiling goods for future sales:

You could overstock.

But survey hints this isn't likely to happen in the next six to 12 months.

WASHINGTON BUSINESS OUTLOOK

Two reasons why business inventories won't zoom in the foreseeable future:

1. There's little chance of extra profits to be made from stocking goods now at today's prices, selling them later at higher prices.

Current situation differs from the past in this respect.

Some inflation appears on the horizon. But higher selling prices months from now—if new mark-ups stick—won't be high enough to offset carrying costs.

Stiffening competition will see to that.

2. Businessmen are wary about enlarging their stockpile of goods.

They've been caught with large stocks on hand twice in recent years—'57 and again in '60.

With large stocks on hand, customers backed off to wait for better times.

Result: Businessmen were months unloading big backlogs. Some companies were finally forced to dump many consumer goods at cut prices which chopped profits.

Now businessmen are reluctant about getting caught in the same spot again.

They'll lean more heavily on quick delivery to keep pace with rising sales.

Progress: Record number of Americans will be getting formal education in the coming year.

The number: Almost 50 million.

That's estimated total enrollment for all colleges, universities, public and private elementary and secondary schools.

Actual count will be made this month by the Bureau of the Census. It's likely to show total higher than 49.3 million students estimated earlier by U. S. Office of Education.

Number in school this year will be more than 10 million higher than 1955-56 school year.

Note: Number of Americans attending school now just about equals total population of the United States in 1880.

The 600,000th new classroom built in America since 1953 will be completed within the next year.

That's as many new school rooms as we built all together between 1925 and 1953.

Survey: Government study shows new public school construction provides jobs for about 115,000 workers.

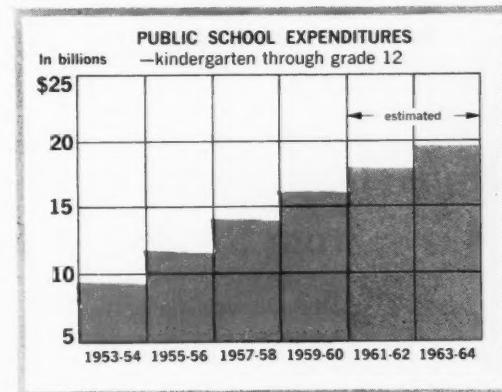
Another 160,000 are employed in planning, producing and delivering the materials used in construction.

New public school construction this year will amount to more than \$3 billion—highest outlay ever. Another \$600 million will be spent for new private schools.

Total public expenditure for education also will soar.

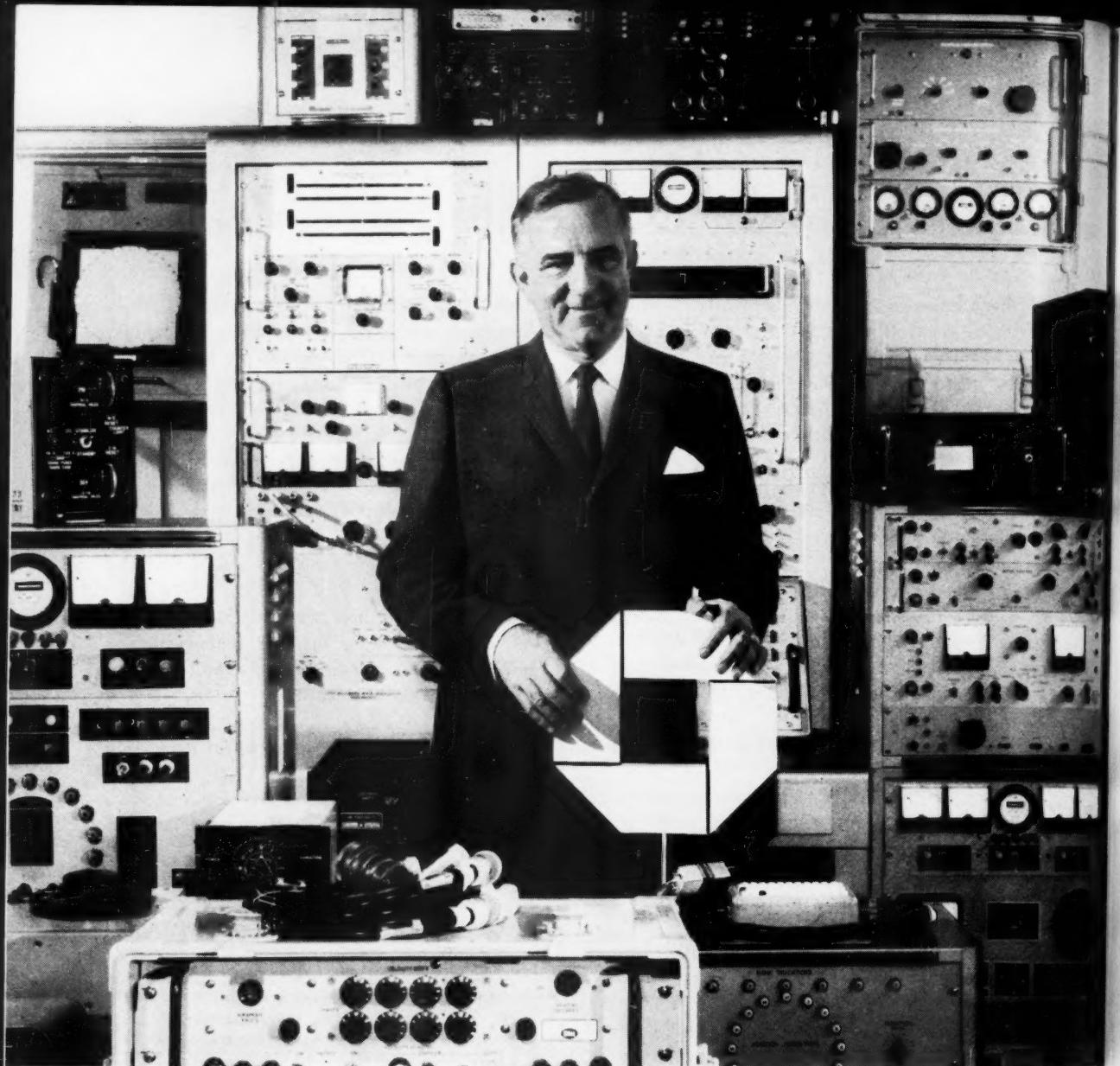
Spending will be around \$17.7 billion from state and local treasuries. That's an increase of \$1 billion from last school year.

Outlay includes teacher salaries, interest payments, construction and other costs of operating public schools from kindergarten through twelfth grade.



Spending trend runs like this:

Total expenditure was \$9.3 billion in 1953-54 school year. Trend points to almost \$20 billion outlay in about two more years.



Chaseman Walter I. Conroy displays the products of one of his business customers

Electronic instruments—and a symbol of greater usefulness from the people at Chase Manhattan

Lending money to small business is one of the things the people at Chase Manhattan like most to do. And for good and practical reasons.

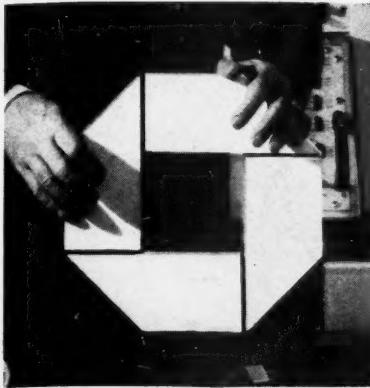
The fact is that when depositors' and stockholders' money goes to work in a small business loan, men and women go to work, too. And if the business succeeds, the whole community benefits by an increase in competition that can bring a wider choice of products and better prices.

In a sense such loans are like seed corn. They go into the ground with much planning and great faith.

Cultivated by men of character and ability they yield a harvest that profits all concerned, brings better living to the community, and ultimately contributes to the strength of the whole economy.

That's why there's no greater satisfaction to a banker than lending money to a business that goes places. It explains, too, why the small businessman is so welcome a customer at Chase Manhattan, and why he has a standing invitation to come in for financial guidance and assistance.

The factual report to the right is a case in point.



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With good judgment, good management and good products the firm has prospered brilliantly. Today its net sales are 75 times greater than they were in 1949 and retained earnings are up 125 times.

Over the years Chase Manhattan loans have helped the firm grow and expand.

But equally important, the firm's relationships with Chase Manhattan are close and continuous. Kept informed of developments within the firm, and called upon frequently for financial advice and counsel, Chase Manhattan is better able to meet the firm's credit requirements and provide the many extra services a large bank can offer business.

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Business opinion:

Freedom not to believe finds supporters

"WE COME CLOSER to Russian Thinking" [September] comes to an erroneous conclusion.

I happen to believe in God; however, just because some Americans believe in God does not mean that all must believe. Our democratic way of life must respect the rights of individuals to believe as they choose.

Just because the Russians demand individuals be atheistic to hold a job does not mean we should prevent atheists from working. If we did this, the ideological gap would truly grow narrower. With the Supreme Court's new ruling, we have widened the gap by assuring our people freedom of belief in any God or no God, as they choose.

DON MARTON
General Advertising Agency, Inc.
Hollywood, Calif.

I suggest that Mr. Morley read paragraph 3, Article VI of the United States Constitution:

"The senators and representatives before mentioned, and the members of the several State legislatures, and all executive and judicial officers, both of the United States and of the several States, shall be bound by oath or affirmation to support this Constitution; but no religious test shall ever be required as a qualification to any office or public trust under the United States."

HENRY M. AUSTIN
Baytown, Tex.

I must take issue immediately with the title. This is a gratuitous insult to thousands of people in this country who are devoted and loyal Americans, who, because they are in general highly intelligent and possess questioning minds, have discarded belief in a personalized God or Supreme Being.

The Supreme Court took the sensible position that in a pluralistic society, there must be room for both belief and disbelief. No government has the right to force its citizens to believe in a Supreme Being (or pretend to) and to make such belief a requirement in order to hold public office. This has nothing to do with communist thinking,

and the agnostics and atheists in this country are the very ones who cannot afford to be in sympathy with communism because they value their intellectual freedom too highly and would have too much to lose under a communist regime.

My own personal experience has been that the avowed agnostic or atheist is invariably an intelligent person of great moral integrity and deep honesty who treats others as he would like to be treated, simply because he thinks he ought to. I think we need more people like that in public office.

M. S. CERVANTES
New York, N. Y.

It is certainly time that we cast away the ignorance, superstitions and other relics of the past which are still clinging to much of our normal life. We simply must look at the world today through the eyes of the scientists, and also look at the past through the eyes of the real historians.

B. T. ROCCA, SR.
Chairman of the Board
Pacific Vegetable Oil Corporation
San Francisco, Calif.

This decision defends individualism at the very point where it is most vulnerable to misunderstanding of the true nature of human dignity and freedom. Could such a stand be farther removed from the arrogance of authoritarianism—and especially of communism which is authoritarianism in its most odious form?

W. J. CONLEY
Pittsford, N. Y.

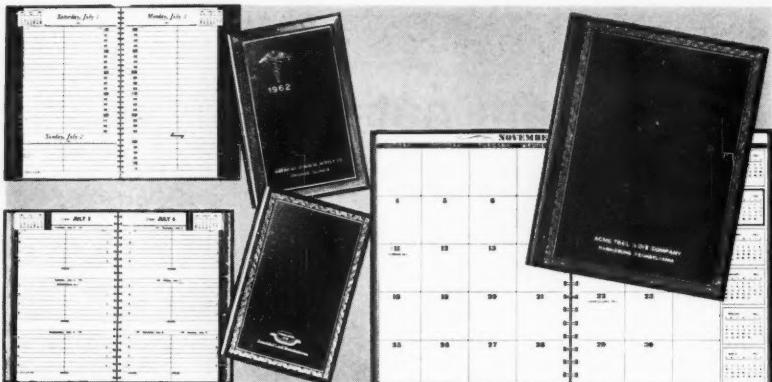
This is an important subject, and I think the other side should be aired.

L. L. PETERSON
Vice President
Interstate Power Company
Dubuque, Iowa

Congratulations to you and Mr. Morley for a splendid article that is a shocker. How tolerant must we be to prove ourselves a democracy? Must we creatures side with those who deny the existence of our Creator?

Without religion how can truth be measured or respected? Russia

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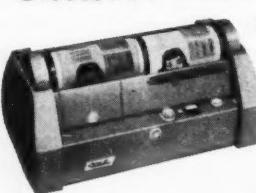
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Business opinion:

uses words for convenience and with no interest in their relation to truth. Rather only with intent to deceive and confuse.

This "broad-mindedness" of the Supreme Court helps to undermine the very foundations of our Constitution and the sense of the Declaration of Independence. When our President takes the oath of office he does so because we are traditionally a Christian country, "under God." Why should our highest tribunal side with the enemies of God?

FRANCIS M. COX, JR.
New York, N. Y.

Your discussion expresses my own misgivings at "the grotesque interpretation which of recent years has been given to the laudable doctrine of separation of church and state."

Fortunately, it is not an irreversible trend. It is forcing a reaction in favor of traditional beliefs.

There is a widespread need for each individual to reaffirm his religious and political beliefs, so often taken for granted. Failure to recognize this ideological challenge and become articulate in our behalf is as dangerous as ignoring the current military threats.

RICHARD C. PEGG
Redondo Beach, Calif.

Mr. Morley is to be congratulated. Unfortunately, the public is having trouble distinguishing between religious tolerance and ungodliness.

When an awareness of what is going on is brought home, then we will commence to combat intelligently and effectively the communist threat to the world and America.

PHILIP E. LA BONTE
Milton, Mass.

Simple answer

Your August issue has an article, "What Kefauver Wants from Business."

The answer to me is very simple, "publicity."

ALBERT VAN ZOEREN
Alvan Motor Freight
Kalamazoo, Mich.

Mr. Kefauver has a great deal to say about the reduction of size for corporations.

I can't help but wonder what his ideas are about the expanding size, scope and control of our federal government.

Your Special Letter, "Flooded Frontier," gives a prime example.

P. E. HYATT
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Executive Trends

- Business faces new pressures
- Where training costs are headed
- Five qualities of men who go far

International tension and the business recovery are combining to exert new pressures on managements of American companies.

In one area—executive manpower—a crosscurrent effect is being noted.

Because of the recovery, many companies are stepping up hiring. But, because of the defense buildup, many likely young executive trainees are headed into military service and competition for the older men, already sharp, is getting keener.

Executive recruiter J. Francis Canny of New York says his firm got more calls for executive talent in a two-week period in August (at the time of the initial Berlin tension) than it generally does in an entire summer.

He cites the business pickup and the defense build-up as the causes. Other recruiters report similar effects.

Areas of especially keen demand for executives now: marketing and finance.

The spokesman for a major management consulting organization says the business upturn is making companies more market-minded, less cost-conscious, and is causing many firms to begin thinking again about their long-range needs (thinking which tends to get shelved in the short-range chill of recession).

Cost-consciousness won't entirely recede because of the business recovery, however. Emphasis on eas-

ing the profit squeeze has made business aware of the need for profit improvement steps, and cost-cutting is one such step.

Another: Faster installation of integrated data processing equipment to obtain more useful information—and at less cost—for executive decision-making.

• • •

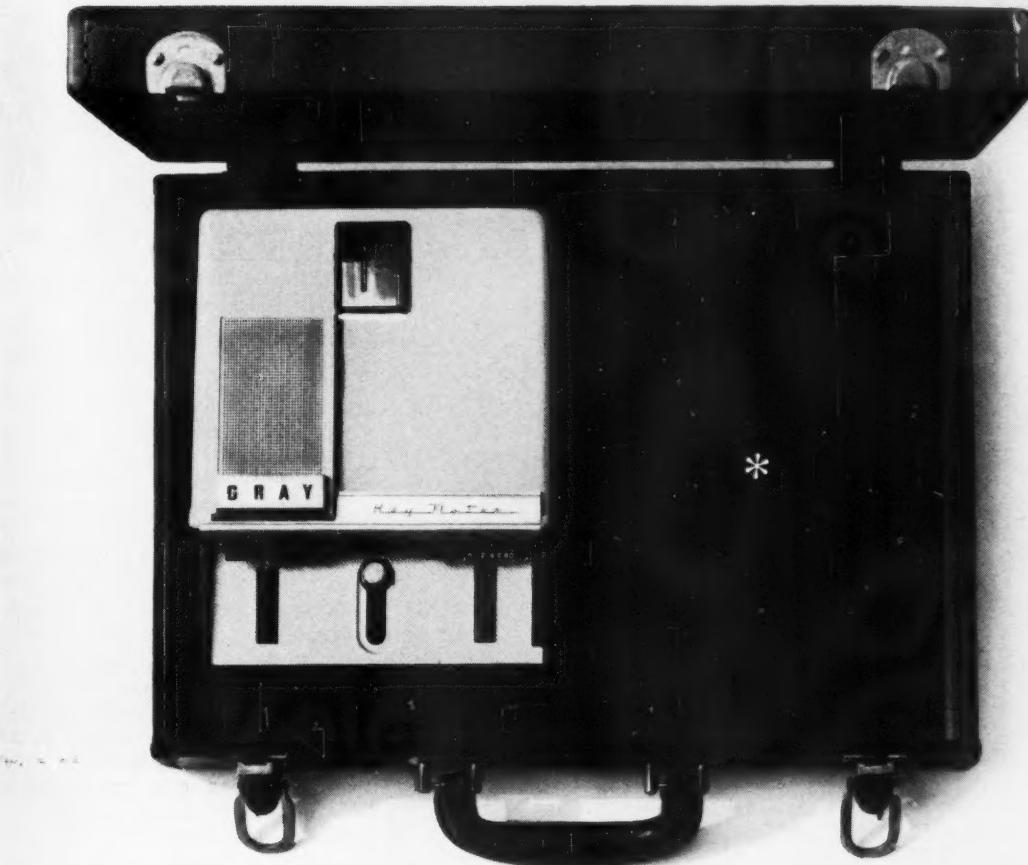
In 1961 American companies will spend from \$25 billion to \$30 billion for on-the-job training of American workers, according to reliable estimates.

That sum will be roughly equal to total spending for all formal public and private education in the United States in the same period.

The training figure for industry covers not only amounts budgeted directly for on-the-job training programs but money spent in inducting new people, as well as training required because of transfers, job changes, introduction of new product lines, and other factors.

Dr. George S. Odiorne, director of the Bureau of Industrial Relations at the University of Michigan, estimates total spending for on-the-job training in the 1960's will approximate \$300 billion.

Dr. Odiorne suggests that industry, facing a staggering and expensive training job in the future, may some day campaign for tax allowances for depreciation of "the vast investments they make in human capital" in an era of rapid change.



Open and shut case for the new Gray Key-Noter

*Surprise Number One: that's the new Gray Key-Noter in the carrying-case of one of its major competitors. We should say, in half the case because it's only about half the size of the other two makes.

Surprise Number Two: the Key Noter is not a "portable." It's a rugged, full-fledged, fully automatic desk instrument . . . with more features packed into its tiny torso than machines twice the size and double the heft. For instance:

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EXECUTIVE TRENDS

continued

and accelerated obsolescence of skills.

• • •

Poor quality may be hurting sales of some U. S. products abroad.

This possibility is suggested by Prof. W. Edwards Deming of New York University, a consultant on statistical methods of improving quality in manufacturing.

Professor Deming has been called in numerous times since 1950 by Japanese concerns interested in raising the quality of their manufactures. He has received an award from the Japanese Emperor and his name, in at least one Japanese plant, has become synonymous with an efficient way of doing things.

Consultant Deming points out that the quality and reliability of Japanese and other foreign-produced goods have improved markedly in the postwar years. At the same time, he warns, there are indications that U. S. industry is not paying sufficient attention to the quality factor.

"The Japanese are way ahead of us in efficient layout of work and parts in assembly operations," he says. The result is that the Japanese have been drastically reducing the amount of rework they have to do on finished items. In one Japanese plant manufacturing insulated wire, the rework rate dropped from 22 per cent to two per cent in a year. Bringing down rework rates is important, Professor Deming explains, because any item that has to be handled more than once is a profit-killer.

He urges American companies to re-examine their methods of controlling work layout and quality control with a view toward achieving greater efficiency and quality.

• • •

Reluctance of top-level managers to support fully or participate in management development programs is causing some head-scratching in industry.

One management training authority recently conducted an informal survey of executives from companies with development pro-

(continued on page 21)

Is this how your group insured employees see you? No employer should remain in the shadows, unrecognized by his employees for the group insurance benefits he provides. That is why Occidental created the Management Recognition Program for its policyholders. This unique program uses posters, pamphlets and payroll enclosures to show employees and their families how they benefit from group insurance. MRP builds your image with your employees, helps you reduce turnover. It is initiated and maintained by Occidental at *no additional cost to you*. Ask your Occidental agent about it. Or have your secretary write us.

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PHILADELPHIA'S FAVORITE MEETING PLACE IS UNDER INA'S WING, TOO

After John Wanamaker, retailing was never quite the same again. In 1904, he planted an immense bronze eagle in the center court of his Philadelphia department store. Why? It just seemed like a good idea to him.

The eagle still stands in Wanamaker's, rendezvous for generations of Philadelphians. Most of his other "good ideas" still stand, too—one-price selling, the goods-returnable principle, modern-day promotion, to name a few. His giant store and its branches remain a tribute to his best idea of all: to sell satisfaction.

INA innovates in a way that would have delighted Mr. Wanamaker. An example is the "packaging" concept in which many forms of insurance are combined in a unified program that provides maximum coverage at minimum cost. Custom-made INA programs cover the Wanamaker stores today.

This kind of ingenuity—plus experience, flexibility and billion-dollar assets has made INA the leading insurer of American business, large and small. Put INA to work on your own business insurance problems.

In your personal coverage, too, INA "packaging" offers simpler and more economical coverage for your home, your car, yourself. Your INA agent or any broker will gladly explain how. See him—get acquainted with INA.

INSURANCE BY NORTH AMERICA
Insurance Company of North America
Life Insurance Company of North America

World Headquarters: Philadelphia

EXECUTIVE TRENDS

continued

grams. He found that in most companies training directors count themselves lucky if they can get middle managers to participate in development sessions. It was a rare firm where men from the highest ranks did more than put in a token appearance.

Why are top men hesitant to take part?

Some common reasons:

1. Many feel they are immune—they don't need it. After all, they've made it to the top.

2. Some feel inhibited about joining training groups largely populated by men far below them in rank. Such executives will, however, often agree to register for programs outside their own organizations.

* * *

If you could choose the agenda for a management seminar, what would you pick as three items of first-rank importance?

During a recent American Management Association seminar at the AMA Academy in Saranac Lake, N. Y., a group of participating small-medium size company presidents and vice presidents were given that opportunity.

Here are the subjects which these officials rated as their high-priority areas of interest:

Planning and change in the organization.

Marketing and distribution.

Employee compensation programs.

* * *

What qualities are found in men who go far in business?

Rohrer, Hibler & Replogle, a firm of psychological consultants to management, reports that—in addition to basic intelligence—five attributes "not only characterize unusual men, but are also essential to the kind of success that has depth, meaning and permanence."

Here are the five:

1. These men learn from experience. They grow in skill, competence and understanding to the extent that they use their experience effectively.

2. Their energy and drive reflect an inner compulsion that far outweighs the outer attractions of success. They are dissatisfied with the

mediocre, and do something about their dissatisfaction.

3. They have faith in themselves, a realistic faith solidly grounded in courage, discipline and personal organization. They have faith to push ahead when frightened.

4. They readily attract the respect and liking of others, but not at the expense of their ability to take an unpopular stand.

5. Their values are consistent, enduring and compassionate.

Dr. Edward J. Keyes, a partner in the consulting firm, says this list is based on Rohrer, Hibler & Replogle's 17 years of experience in advising on business problems involving human psychology.

* * *

Four stumbling blocks to full participation of employees in large organizations have been pinpointed in a new study of 96 organizations.

The study was conducted by the Survey Research Center of the University of Michigan in cooperation with the American Management Association and the participating organizations.

The four obstacles—and the researchers' comments on them—are these:

1. Communication: As size increases, communication among employees becomes more difficult. This reduces the level of "interpersonal attraction" among members. It results in lower participation.

2. Specialization: As organizations grow, the average job involves fewer responsibilities. This lowers the satisfaction employees may obtain from participating.

3. Bureaucratic controls: At higher levels of large organizations, there is considerable personal intervention by top-level managers. At lower levels, there is an increase in impersonal forms of control. Both of these are repugnant to employees.

4. Coordination: As organizations grow, their problems of coordination become more complicated. Inflexible, bureaucratic rules and regulations become necessary to channel their efforts, and these are resented by members of the organization.

Bernard P. Indik, who directed the study, says communication and all other problems of large-scale organizations can be controlled by organizational processes and effective management. They are not determined solely by size, he adds.

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Time to ask, “What can I do?”

BY MERRIMAN SMITH

OCTOBER ordinarily is recommended by leading specialists as a fine month for complaints against the government, the Administration and both political parties. Washington weather usually is as good as it ever gets, members of Congress are busily inspecting their home fences or the parliamentary systems of Europe and many of us are back from summer vacation, tanned, rested and with the energy necessary for throwing rocks.

October also is early enough for complaining about Washington without seriously dampening the gay festivals of shopping for Thanksgiving and Christmas.

This October, however, complaints should be filed as early as possible lest they risk being regarded as bad taste, even unpatriotic.

We may be heading into a period when political damnation won't sound quite right, when labor and management will find it more prudent to be less muscular in their differences.

• • •

Soviet Premier Nikita S. Khrushchev has started the nuclear fireball rolling again with his unilateral decision to resume testing; a most curious decision which would seem, apart from its involvement in the fate of mankind, to reflect an amazing lack of understanding on Khrushchev's part. He could expect from test resumption nothing but tightening allegiance among the Western nations and a reaction through the neutral nations not particularly endearing of the Soviet Union.

In addition to the nuclear test situation, the Communist Party Congress meets in Moscow later this month. After the meeting and its expected new fuel for the fires of Berlin, Washington climate could change so sharply that complaints, save the most

Merriman Smith is the White House correspondent for United Press International.

urgent, might go out of style for a while. Apparently it is beyond Khrushchev's comprehension or beneath his caring, but in Washington and across the nation, intensely divergent Americans find themselves being glued together again with an adhesive produced by international trouble.

A somewhat comparable external adhesive bound up the United States in the late summer and fall of 1941 when the late President Franklin D. Roosevelt had a harshly divisive situation on his hands. His power in Congress was seriously threatened and various factions bitterly assailed not only domestic,



*Must democracies let enemy strike first
as Mr. Roosevelt did with Pearl Harbor?*

but foreign policy as well. Then, as the threat of war mounted toward the tragic attack on Pearl Harbor, the outer enemy forced the inner antagonists together.

Mr. Roosevelt knew almost without doubt that the United States would become involved in World War II. As the 1941 autumn deepened into winter, he also knew that the first blow would be struck by the Japanese somewhere in the Pacific. Knowing this, he could

TRENDS: WASHINGTON MOOD

not let America strike the first blow because democracies don't start wars.

This poses a rather terrifying question for the men of Washington today. Once a democracy satisfies itself that an enemy is preparing to strike with thermonuclear weapons, does the democracy then wait, and while waiting, burrow into costly pits and work feverishly to devise increasingly deadly weapons of retaliation? Apparently this is what a democracy does, all the while maintaining the greatest possible diplomatic pressure on the enemy in hope of making him realize that in 1961, one man's poison is another man's poison.

A democracy also does something else, as Washington is doing this fall. It tries to look beyond the mushroom clouds over the test grounds of central Asia to determine whether Khrushchev actually is edging toward nuclear war or conducting a highly

is what Washington and the nation face. In fact, it is sound to predict there won't be thermonuclear war in our time. This can be done without the professionally humbling risk of being proved wrong. Should there be major use of thermonuclear weapons, this forecaster in all probability will not be around to receive complaints, living as he does in one of the major target areas. For that matter, few readers would be left to complain.

While awaiting proof or disproof, Washington continues in business, dealing with some of the less dramatic aspects of international affairs. The Administration knows a jarring war scare could cause many Americans to rush the markets for items which were hard to get in World War II, particularly those involving metals and electronics. Against such a possibility—and this has been going on for years, long before the Kennedy Administration—various government agencies periodically update plans for economic controls.

Even in a rather tight international situation, Americans have it within their power to avoid or delay return of restriction of their purchasing power by not letting Soviet moves or the insatiable itch of hoarding lead them into senseless spending.

• • •

To be effective, a do-it-yourself plan for combating inflation might require changing our concept of leadership. Instead of saying "Why doesn't Washington do something about —," we might have to ask ourselves, "Why don't we do something about —?"

It may be comforting to think of leadership and responsibility as the fatherly province of Washington. These are qualities, however, that should not be regarded as sort of a detachable cover which voters may snap over the national problems on election day, removing it only when it's voting time again.

• • •

Not in many years have we seemed to face such a need for greater public awareness of and participation in government problems a little less dramatic than service in the armed forces.

Literary limitations blessedly prevent the presumptuous offering of specific suggestions, but, in a general sense, all of us might be better off, and this includes the Russians, by not being so all-fired responsive to external stimuli.

The man next door may be a charming and dependable car pool chairman, but if he purchases ten pop-up toasters on a tip from his cousin who heard it at the bowling alley where he works, feel only sympathetic disregard for this fellow.

It can't possibly help for you to buy 12 doorbells or a gross of flashlight bulbs.

When government officials speak in these cloudy hours of need for greater understanding, they refer not only to need for clear viewing between nations, but inside our own country. To shout for war even in the relatively small circle of neighborhood friends can be an unhelpful pebble in an already troubled pond. Irresponsible talk and alarmistic behavior are highly infectious, but a curious infection that pleases at least one doctor, N. S. Khrushchev, M.D.



In resuming nuclear testing, Khrushchev gives all Americans chance to be leaders

expensive public relations campaign. The best bet is the latter.

His resumption of nuclear testing pleased the Red Chinese, outwardly at least. It also puts Khrushchev in position to say to his recently restive Chinese allies, "See, fellows? Sit back and leave the testing to us." And should Peiping be so comforted, it would give the USSR additional time in which to concentrate on other areas without the immediate annoyance of the kid next door playing with fireworks.

• • •

It is difficult for even the most seasoned Washingtonian to preserve a detached, long view this early autumn with the cables and air waves hourly washing up on our shores the angry, menacing and at times frightening details of seemingly warlike moves and countermoves overseas. But detachment is what is needed; not indifference, but the detachment of unemotional analysis and hard-headed planning.

Preparing for and living in an era of near-war can be much more tedious than rushing headlong with galvanized dedication into actual conflict. But tedium

TRENDS: THE STATE OF THE NATION

To share wealth— first create it

BY FELIX MORLEY

GREAT BRITAIN'S application for membership in the European Common Market is a matter of profound significance, both economic and political. And this significance is increased by the fact, perhaps insufficiently realized, that the decision taken in London recently was not a wholly free choice. Only seven years ago, when the leading continental countries were planning the consolidation that has proved so successful, the British government proclaimed "substantial reasons why the United Kingdom could not become a member of such a union."

The then Conservative government in Britain did not merely turn a cold shoulder to overtures from the Common Market countries—France, Italy, West Germany, Belgium, Netherlands and Luxembourg. It also actively promoted the formation of a rival European Free Trade Association, composed of Britain, Austria, Portugal, Switzerland, Denmark, Norway and Sweden. Since 1957, Western Europe has thus been divided between the "inner six" and the "outer seven," a split that has not improved its unity in confronting the communist threat to all.

• • •

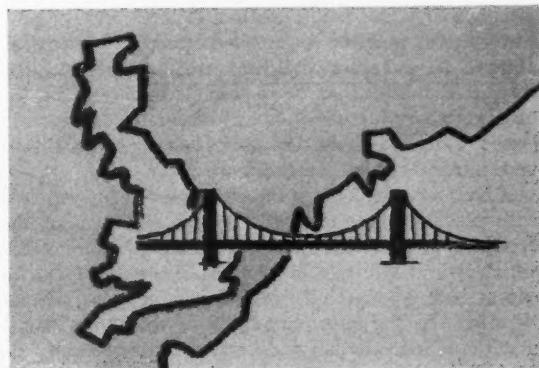
This unfortunate division was sharpened by the radical difference between the purposes of the Six and the Seven, not lessened when, in March of this year, Greece joined the former and Finland the latter grouping. The essence of the European Economic Community, as the Common Market countries officially call themselves, is the gradual elimination of all tariffs, and the free convertibility of currencies, among the membership. The EFTA, on the other hand, is a much looser association whose members have agreed to lower their tariffs on industrial imports uniformly among themselves, but without uniformity of duties as applied to other countries. British exporters have not found EFTA particularly helpful and the current defection of its originator undoubtedly means that all its members will now move toward affiliation with EEC.

A much broader Common Market in Western Europe is the more probable because of the strong

approval of this development that comes from Washington. It is seemingly a major objective of our foreign policy to give substance to the projected Atlantic Economic Community including both the United States and Canada, all of Western Europe and perhaps eventually Latin America as well. Though formally launched last December, this trans-Atlantic economic grouping still has little reality except on paper.

A first step toward actual achievement is obviously elimination of the division between the European blocs. British action has now made this consolidation of EEC and EFTA a probability.

It cannot be said, however, that the reversal of British policy was prompted by a desire to please Washington. The principal leverage on Prime Minister Macmillan in the matter was that of grim necessity. In explaining the British financial crisis to the



Linking Britain to European Common Market may help solve financial problems brought on by welfarism

House of Commons the Chancellor of the Exchequer emphasized that personal income in Britain has been increasing more than twice as fast as the increase in national productivity. During the past fiscal year

TRENDS: STATE OF THE NATION

the former rose approximately \$4 billion; the latter only \$1.8 billion. No society can for very long distribute among its members twice as much wealth as the aggregate creates.

A chief symptom of the British crisis was that same torrential outflow of gold and foreign currencies that some months earlier had disturbed American financial managers. In both cases an underlying cause was fear that continuous governmental extravagance would force currency devaluation, making it undesirable to hold dollars in the one case or pounds in the other. Without the Berlin flareup, which pulled back hot money that had been sent to Western Germany, the exodus of funds from Britain might have been even more alarming.

Emergency measures applied by the British government have helped to reveal the nature and magnitude of its financial problems. The discount rate was raised to seven per cent, itself a sharp discouragement to domestic spending. In addition, bank credit for personal consumption expenditure is specifically restricted; sales taxes are raised 10 per cent over earlier rates and it has been made national policy to discourage either wage or dividend increases. The underlying purpose is to divert more of British production into export channels. A primary reason for joining the Common Market, says Mr. Macmillan, is the hope that step carries for British exports.



It is questionable, however, that these measures go to the root of Britain's difficulties. That country, with no compensating increase in productivity, has tremendously expanded welfare measures for its people. Whether these measures are in themselves desirable is not the issue. The problem is simply whether a government can continue to distribute wealth that is not being created. There comes a time when this is possible only if the value of its money is allowed to evaporate. While anti-inflationary, the current British measures to some extent tend to discourage a productivity already low. It is evidently hoped that, somehow, the social services can all be maintained without curtailment.

Developments in Britain should now be watched with the more interest because the dilemma of the Kennedy Administration is essentially similar to that which Prime Minister Macmillan has had to face. Of course, our productivity is far greater than that of Britain. On the other hand, the scale of our social services is more lavish and becoming increasingly so. Mr. Kennedy, for instance, was urging federal aid for teachers' salaries as Mr. Macmillan was saying bluntly that his treasury cannot now consider that particular drain.

Moreover, economies forced on Britain may imply some increased expenditures by the United States. It had been expected, for instance, that the British would assume a larger share of the foreign aid program. On this the Chancellor of the Exchequer

leaves little room for illusions. He told the House of Commons that Britain will this year meet obligations of \$504 million in this field. These, he said, will be honored but "I am bound to take special steps to contain the present increase and see it doesn't rise much above the present level."

In Washington there seems little disposition to make the President's pleas for personal sacrifice effective. On the contrary, the requests for every sort of welfare spending have never been as great, or pressed so strongly, as this year. It is noteworthy that the federal payroll, in civilian agencies, has mounted steadily since last January, with a thumping increase of 33,393 new employees in June alone. Of these, more than 2,000 were new recruits for the ever burgeoning Department of Health, Education and Welfare.

The relatively favorable position of the United States should not conceal the fact that our resources also are not unlimited; that if we, too, emphasize the distribution rather than the production of wealth we shall in time face the same grim problem that shadows Britain.



That problem would, in one respect, be worse for us. In its necessity Britain can loosen the largely sentimental ties of imperial preference to begin the integration of its economy with what seems destined to be a real United States of Western Europe. Since the Common Market has proved so profitable for Germany, for France, for Italy—why not for Britain, too? With hard work and aggressive techniques this historic step could well restore the old-time British eminence in many lines of manufacture. But no such alternative policy is currently visible for the United States.

Both European consolidation and Japanese resurgence are beginning to press this country hard. In many lines we are meeting the stiffest sort of competition, in the domestic as well as in once dependable foreign markets. Many who are under the gun in this respect are urging more protective tariffs. Advocacy for our entry into a huge tariff union, embracing the whole Atlantic community, would certainly be regarded as visionary.



Wage differentials between Britain and the Common Market countries are slight. The unrestricted movement of labor across frontiers, which is a stipulation of EEC membership, is no great obstacle to European unification. But it is impossible to believe that the United States will, in the foreseeable future, eliminate all duties on European products and permit unrestricted immigration to intensify our unemployment problem. We already have our Common Market, in the union of 50 states.

The alternative to which the British have turned in an effort to raise productivity to their spending level is therefore not practically available for us. That does not mean that we are in any way immune from the forces that are producing a change of epic magnitude in British policy, making that island for the first time an integral part of Europe.

WHITE HOUSE STUDIES CHANGES IN BUSINESS ROLE

Decisions center on work government hires out

THREE RECENT actions in Washington promise to change the relationships between government and the business firms and colleges which have been doing government work.

Your company may be affected even if it does no government business. If a plant in your area loses or gains a contract, its employees may be more or less able to buy what you produce or sell. In any event you will be affected as a taxpayer.

The three Washington actions are:

1. President Kennedy has ordered the Bureau of the Budget to study the advantages and disadvantages of federal contracts with private companies and institutions as compared with the government doing its own work.

In a letter to Budget Bureau Director David E. Bell, President Kennedy noted that the government has been able to accomplish many important things through contracts, but requested recommendations "which would provide the government with greater flexibility in determining whether the public interest would best be served by the use of contractor or direct government operations."

The study is to center on contracts for research and development, analytical studies, advisory services, and technical supervision of weapons systems and other programs operated on a systems basis. These are primarily military contracts.

However, the President said the recommendations would guide future executive branch action, indicating that they may set an over-all pattern. A report on the study is due by December 1.

2. The Department of Defense is launching a thoroughgoing analysis of its vast procurement activities. Secretary Robert S. McNamara and his

assistant secretary for installations and logistics, Thomas D. Morris, are concerned, on the one hand, with the Department's substantial dependence on a limited number of suppliers—that is, on "sole source procurement"—and, on the other hand, with the effect large-scale government procurement has on whole industries and on the national economy.

3. The government has adopted a new policy governing the evaluation of bids when one contractor proposes to use government facilities and others propose to use their own, or a combination of private and government, facilities. The Department of Defense has eliminated the principle that private manufacturing plants should be given preference if costs were not disproportionately high.

In recent years, the government has been hiring out more and more work, while also increasing federal activities. Government had to call on private industry's technological know-how and trained scientists to meet the Soviet challenge in space exploration. It draws on the best brains of business, the universities, and nonprofit institutions to keep ahead in research and development. It taps thousands of firms, large and small, to produce the complicated weapons needed for defense.

The policy has been: "The federal government will not start or carry on any commercial-industrial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels."

As the scope of contracting has spread, Uncle Sam has hired outsiders to train officers to handle military aid overseas; to establish universities in underdeveloped countries; to distribute Air Force manuals to employees throughout the world; to care for govern-

BUSINESS ROLE *continued*

ment buildings; to build highways, urban renewal projects and airports.

All this has led to an uneasy alliance between government and business which satisfies nobody.

Congressional committees complain that private industry is hiring scientists and engineers away from government by paying them too much; that some defense contractors have charged the government too much, that government is creating monopolies by dealing with the same contractors too often.

Businessmen, on the other hand, complain that the government is using procurement practices designed for buying mass-produced items when, in fact, it wants only research and development or small lots of items such as missiles or spacecraft. They complain that profits are steadily being whittled down, that legitimate costs are not being allowed, and that government agents tell contracting firms how to run every detail of their business.

Such complaints emphasize the irritations of this alliance. To recognize its benefits, as well as pitfalls, look more closely at:

- How it is changing business.
- How it is changing government.

Changing business role

A large proportion of government spending—almost 10 per cent of the defense budget, for example—goes for research and development of needed weapons or equipment. The percentage is high in such programs as space exploration, atomic energy, air navigation control, and urban renewal.

The government also has assumed basic national responsibility for the promotion of science. As Thomas J. Watson, Jr., pointed out in the report of the President's Commission on National Goals, "The federal government today plays by far the most significant role in the whole area of technological change. More than 60 per cent of all expenditures for research and development are now made through the Department of Defense, Atomic Energy Commission, National Aeronautics and Space Administration, and other federal agencies."

Thus, many enterprises sell the government a product that has never been seen before or a service that may never be needed again.

Consider the recent merger of two aircraft companies, Ling-Temco Electronics, Inc., and Chance Vought Aircraft, Inc.

The Justice Department is trying to undo this merger on the grounds that it may tend toward monopoly or tend to reduce competition substantially. This means the federal district court in Dallas may have to determine the extent of competition between these companies, or between them and other companies, without being able to call on the precedents in previous cases concerned with cellophane, sugar, sporting goods, or steel wool. Precedents do not apply because neither Chance Vought nor Ling-Temco manufactures a standard product.

Such companies, in a conventional sense, have no established, advertised, franchised, and stocked prod-

Nonprofit organizations trigger current dispute over federal contracting

A new breed of enterprise—the nonprofit corporation or organization established to do government work—is the center of much of the debate over the government's contracting practices.

Are such nonprofit organizations good or bad? In ordering a new study,

ucts to sell. What they have is a staff of scientists and technicians. They use this staff—plus a plant, machine tools and some laboratory facilities—to do research and development. Each company strives to keep its staff and facilities busy on anything from making aircraft, missiles, and electronic components to mobile homes, racing automobiles, and washing machines.

When a private firm contracts in a large way for government business, it alters its status as a private enterprise in several basic ways. The nature of the traditional entrepreneurial risk is changed. In many instances, most of the plants, tools and laboratories are owned by the government because there can be little certainty as to the long-run need for such investment when technology changes and, hopefully, we look forward to a real peace.

On unprecedeted problems, government also assumes risks when plans or specifications are changed, and the usual terms of contract, "cost-plus" or "fixed price incentive," were designed to limit risks still further.

On the other hand, the contractor is face to face with the major risk that his contract will be cut back or canceled as military plans change or as appropriations are reduced.

In addition the contractor's freedom is limited. Some usual costs of doing business may not be allowed. He will be subject to pressure to subcontract with small businesses or with firms not of his choosing and will be subject to wage and employment regulations he doesn't meet when selling to others.

The increase in government contracting has had at least four effects on American industry:

President Kennedy cited congressional criticism. The House Appropriations Committee calls their use "merely a subterfuge to avoid the restrictions of civil service salary scales." The House Government Operations Committee, however, favors their use on the ground that more able people may be used, and lack of the profit motive will result in more dedication to objective research and development.

More than 350 such organizations have been set up in the past 10 years, mostly at government invitation.

They do little if any nongovernment work, and generally are financed entire-

ly by the proceeds of federal contracts. The Air Force has been the principal user of their services. Its complex of nonprofit research and development contractors includes:

Aerospace Corporation: is planning agent for the Ballistic Missile Division.

MITRE Corporation: systems management for Command and Control Development Division.

Lincoln Laboratory: electronic, sensor and data processing research for CCDD.

RAND: aids Air Force Headquarters in arriving at policy decisions.

Analytical Services, Inc.: analysis and other services for Headquarters.

First, it has channeled a large proportion of government business through relatively few firms.

The reasons are clear. Few corporations in each field—missiles, ships, electronics, engines, aircraft, or urban freeways—have the highly skilled and experienced engineers, scientists, and technicians who are required. Fewer still can combine with such a staff the demonstrated managerial capacity to handle contracts involving a large team of suppliers and tens or hundreds of millions of dollars.

The net result has been to build certain industries around a few large producers. These include the aircraft industry, shipbuilding, electronics (to a lesser degree), engine building, and segments of the chemical industry. However, it should not be overlooked that thousands of subcontractors take part in the projects managed by the prime contractors.

Second, firms that rely on government business have been divided into three groups—the systems managers, the subsystem producers, and the parts suppliers. The terms may not be precisely descriptive and the groups are to some degree interchangeable, but a contractor generally comes to be considered as belonging to one specific group.

If you want a systems management contract you must be able to manage development of a whole weapon, such as an aircraft or a missile. You would contract for each of the components, handle scheduling, financing, and coordinate the efforts of subcontractors.

You would be expected to bring the weapon and its supporting facilities, including trained operators, to the place where it would be used. Under this sort of contract, a private firm acquires great economic

power. Hence, system management contracts have been attacked on the ground that no private firm should be entrusted with such a great range of decisions. To be a subsystem producer you must develop special competence in producing a large component of a weapon—an engine, a reactor, a guidance or computer system.

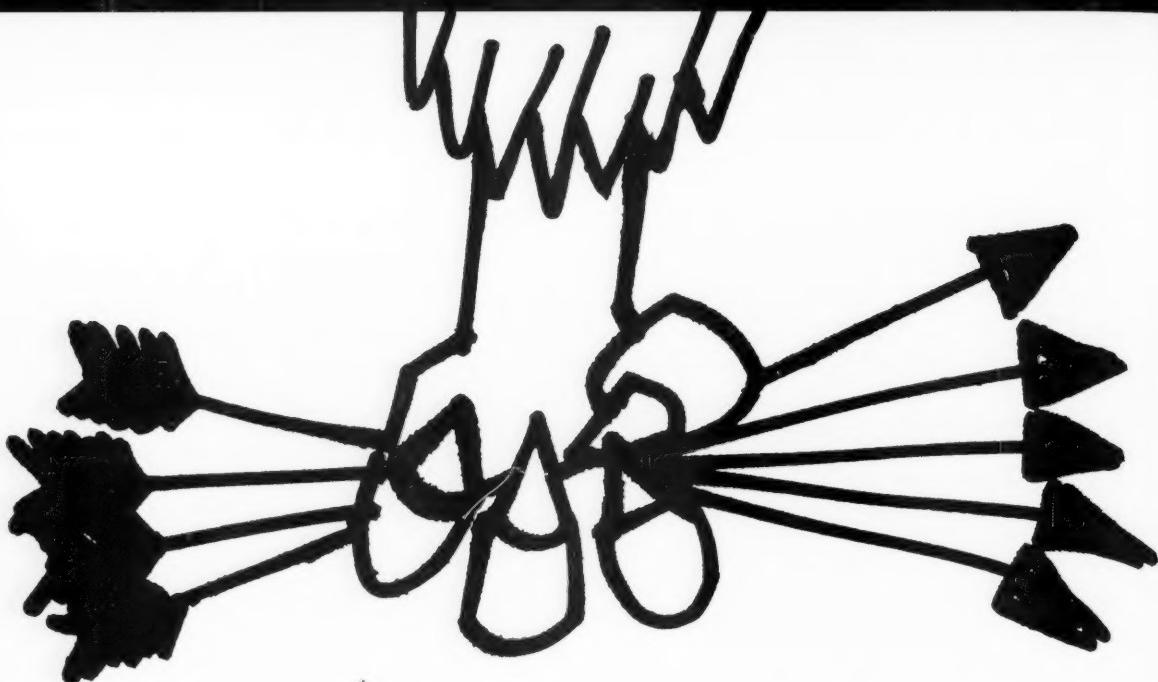
Parts suppliers provide smaller units or material. This is the easiest group to join if you can supply systems managers or subsystem producers with fuels, transistors, tubes, nose cones, wings, or other parts that are needed.

Third, a type of company has emerged whose very existence depends on government business. Such companies have been called the captive corporations of American industry. Among them are General Dynamics Corp., Lockheed Aircraft Corp., Martin Co., McDonnell Aircraft Corp., Marquardt Aircraft Co., Northrop Corp., Raytheon Co., Republic Aviation Corp., and United Aircraft Corp. All make more than half their sales to government.

When a corporation finds itself in such a state of dependence, what policy does it adopt to guarantee survival?

Probably most such corporations have tried to get out from under by developing commercial products. Lockheed, for example, has bought a shipbuilding company, a dry dock company, a crane manufacturer, and the manufacturing rights to a rubbish disposal company. A few companies, on the theory that the Cold War will continue many years, have thrown themselves fully into seeking a large share of the government market.

What is the government's (*continued on page 75*)



BACK MISSILES WITH WILL TO FIGHT

Dedication to liberty and understanding of communism are vital

BY U. S. REP. CHARLES E. BENNETT

Member of the House Armed Services Committee

WATER ROSE dangerously in the hold of the shattered *Bonhomme Richard*. Fire flared repeatedly on her decks as the nearby British ship of war *Serapis* pounded the outclassed and aged American vessel.

When the *Serapis*' captain demanded surrender that September day in 1779, Captain John Paul Jones hurled back his immortal answer: "I have not yet begun to fight." Three and a half hours later the British ship was forced to strike her flag.

History holds many examples of will overcoming superior weapons. Valor has been instinctive to Americans and a sense of loyalty to our principles and traditions has always stirred us to defend our nation.

Today, however, and surely for years to come, our armed forces must be supplied with a new element to defend this country in a new kind of warfare. Our national pride and natural courage must be fortified with an understanding of the complex differences between our heritage, beliefs and future on the one hand and the strategy and goals of imperialistic communism on the other. A new military educational program has this objective.

Since we are in a war of ideas, knowledge will be our source of power and the firmness of the con-

victions of our armed forces will be as vital to victory as our missile strength.

A national controversy is now smoldering over what participation, if any, the military should take in political affairs.

President Kennedy has declared that the military should not be exploited for any partisan purposes. Certainly we should hold to the American tradition of civilian control over the military. Our armed forces should stick to their policies of sponsoring, promoting and informing only on matters connected with the military mission.

However, the military mission has been undergoing drastic change. War feints, troop build-ups for psychological purposes, guerrilla fighting rather than formally declared war, and propaganda blustering are now major tools of politico-military strategy. Psychological warfare, infiltration, subversion, internal revolution and even economic and military foreign aid with and without conditional strings attached are other modern quasi-military tactics.

It is difficult now to separate military functions from general government policies. National security problems now are directly connected with problems of economics, national growth, fiscal affairs, technology and diplomacy.

Certainly the military should be

restrained from speaking out in support of extremist groups on either the political right or left. Too many people today are abusing the privileges of free speech and free press by reckless criticism of those who think differently.

But the military should not be shielded from any knowledge of existing controversies, even of the extreme views within our nation.

The modern military man must know much more than the manual of arms and close-order drill to sustain him in the Cold War. He should have a sense of history and current affairs or he will lack the perspective to understand his country's position and what he is fighting for. He must also understand communist tactics or he won't know what he is fighting against.

Our citizen-soldiers must be aware of the complexities of domestic and international issues. We can't allow our fighting men to be political eunuchs just because they happen to be in uniform.

We must realize the strength of the communist ideological offensive. The Senate Subcommittee on Internal Security estimates that Soviet communist propaganda, including special training schools, employs 500,000 persons throughout the globe in an operation costing about \$2 billion yearly. The Soviet Union thus spends about 100 times as much in its propaganda effort as does the free world.

The new generation in the Soviet Union has spent its entire life under communist indoctrination and thought-control. This will soon be true also of the young Reds entering the communist Chinese armed forces.

The youth who make up our fighting forces must be as dedicated in their beliefs as are the communists.

Although the American people—young and old—are exposed to the greatest informational abundance in history, survey after survey reveals widespread ignorance of our way of life as well as of the communist threat. Of course we bear the primary fault as parents when we fail to live lives of dedication to American principles ourselves. What we fail to do speaks louder than what we say.

We are too willing to disparage our constitutional and political

processes. We are too self-conscious about honoring our traditional symbols of patriotism. We in America too often hesitate to accept our role as world leader in the struggle for human liberty, a destiny we cannot escape.

Billions of dollars are spent on weapons and on training for modern warfare, and though arms and know-how can't be underrated, the will to use these resources effectively is equally necessary.

As one observant U. S. prisoner of war testified after Korea: "A man's ability to resist communist techniques seemed in direct ratio to the firmness of his basic convictions before he was captured."

In this age of fast-emerging politi-

democratic system and contrast it with the communist system.

Because of the dynamic nature of domestic issues and international affairs, this should be a continuing and broad-gauged information and education program.

Until World War II there was little formal activity to keep our servicemen informed. World problems were less complicated and issues were more clear cut. Then, in 1941, there was a need to know what our aims were in the war, what the differences were between our free society and the fascists.

But the armed forces information program failed to prepare enough men well enough.

In World War II there was an



The author served in the infantry during World War II. He won the Silver Star for gallantry in action, led guerrillas in Northern Luzon fighting and served as a public information officer.

Rep. Bennett has been a Democratic member of Congress from Florida since 1949. He has received Freedoms Foundation awards "for outstanding achievement in bringing about a better understanding of the American way of life."



cal, economic and social consciousness and desires, our roughly 1.5 million military people and dependents scattered around the globe should be equipped to explain our

extensive ignorance and indifference on the part of some of our servicemen. I can remember vividly, for example, the disparagement by some
(continued on page 44)

IT'S YOUR MONEY

FEDERAL SPENDING

SOARS PAST

\$100 BILLION

Tax dollars go for many items outside the regular government budget

WHILE CONGRESS debated a federal budget in the \$90 billion range and President Kennedy emphasized the need "to hold tightly to prudent fiscal standards," actual expenditures by the federal government have reached and passed \$100 billion a year. The \$110 billion level is in clear sight and \$120 billion is coming into view.

The difference between budget figures and actual spending results from the mushrooming use of an old device—the federal trust fund—which has put huge areas of federal income and outgo outside the regular budget figures.

Trust funds have become increasingly popular in recent years and the Kennedy Administration is moving to make even greater use of them. As a result, the standard budget figures—the ones that get all the publicity when the White House sends the budget to Congress every January—no longer show how much the government is really spending or how rapidly the rate of spending is going up.

The budget submitted to Congress to provide a basis for legislation was wavering between \$75 billion and \$80 billion of spending authority in the closing years of the Eisenhower Administration. It jumped to \$85 billion or better for the year which ended June 30 and is now just under \$90 billion in real spending authority for the current fiscal year. In the next two years, from all indications, it will move resolutely toward \$100 billion—ar-

riving there, in the opinion of most budget experts, well before 1970.

That is a grim picture to those who feel that the upward trend of the federal budget must somehow be stopped. But it should not be especially startling. It fits in generally with previously published predictions.

But now add this item: The trust funds, which essentially are book-keeping devices to segregate special spending programs and the revenues to finance them, are not included in the regular budget totals. They are climbing at a rate even beyond that of the official budget. In the year that ended last June 30 trust fund spending stood at \$22 billion. The previous year it hit \$24.5 billion. In the current year, which will end June 30, 1962, it will reach about \$25.1 billion. It can be expected to keep on growing \$1 billion or more a year if present programs are not expanded and at a considerably faster rate if bigger programs are adopted.

Where spending really stands

When the regular budget and the trust fund spending are added together, and allowances are made for certain intragovernment payments, total federal outlays hit the \$100 billion mark in the year that ended last June 30. They will total at least \$107 billion in this fiscal year, and will rise to between \$110 billion and \$115 billion the following year.

The increases in the combined regular budget and trust fund out-

lays have brought a mighty upward surge in the so-called cash budget of the federal government. This budget reflects the total money the government takes in from regular tax collections plus assessments for the trust funds and what it pays out to the public in regular budget and trust-fund spending, less certain payments that pass between government agencies.

Most economists now look to this cash budget when they are trying to determine the impact of government fiscal policy on the economy.

So important have the trust funds become in this respect that one federal economist said recently: "For this purpose we don't even look at the regular budget totals any more."

But even the combined budget and trust-fund figures don't tell the whole spending story. A number of government agencies show up in the budget total simply as net surplus or deficit figures—income less spending or spending less income. For example, the Post Office Department in the current year is put down for some \$900 million of federal spending authority in the budget totals. Actually, it will spend \$4.5 billion but this will be offset in large part by \$3.6 billion in receipts. The Commodity Credit Corporation appears in the current budget as a \$3 billion item. Actually, it will spend \$4.8 billion, but it will have \$1.8 billion of receipts. And so on. These and other agencies are down in the budget for a total of \$4.6 billion of spending. They'll really spend \$14.9

billion and take in some \$10.3 billion. Thus, in terms of actual spending, another \$10.3 billion could be added to the totals, entirely aside from the regular budget or the trust funds.

These items do appear in the budget as net figures, and it can be argued that to include the total income and outgo would serve no useful purpose. That argument does not apply to the trust funds, however. They do not affect the budget totals in any way.

The trust funds have been with us for decades. But they didn't amount to much in relation to total federal spending until the mid-1930's when the Roosevelt Administration began to use them to finance social security, unemployment compensation, railroad retirement and other New Deal programs. The purpose was to keep separate from regular tax collections the funds the government collected specifically to finance those programs. The collections were invested in government bonds and neither the income nor the outgo was made part of the regular budget totals.

As the years passed, trust fund collections and spending swelled. Congress repeatedly liberalized ben-

efits under social security and other programs and increased the special taxes to pay for such benefits. At the same time, it added new programs to be handled by the trust fund method.

In 1956 alone Congress set up three new trust funds, either for new programs or for programs that had previously been handled as part of the regular budget. It reorganized the Federal National Mortgage Association and took much of its buying of government-insured mortgages out of the budget totals and put them into a new trust fund; it authorized a new program of payments for total and permanent disability under social security and set up a special trust fund to handle it; it approved a big new federally financed interstate highway program and sent special tax collections into a trust fund to finance that.

Thus, even though the regular budget was rising, trust fund spending was increasing even faster. In 1947, the first peacetime budget year after World War II, regular budget spending totaled \$39 billion and trust fund spending \$5.2 billion. By 1957, after the three big additions to the trust fund list, budget

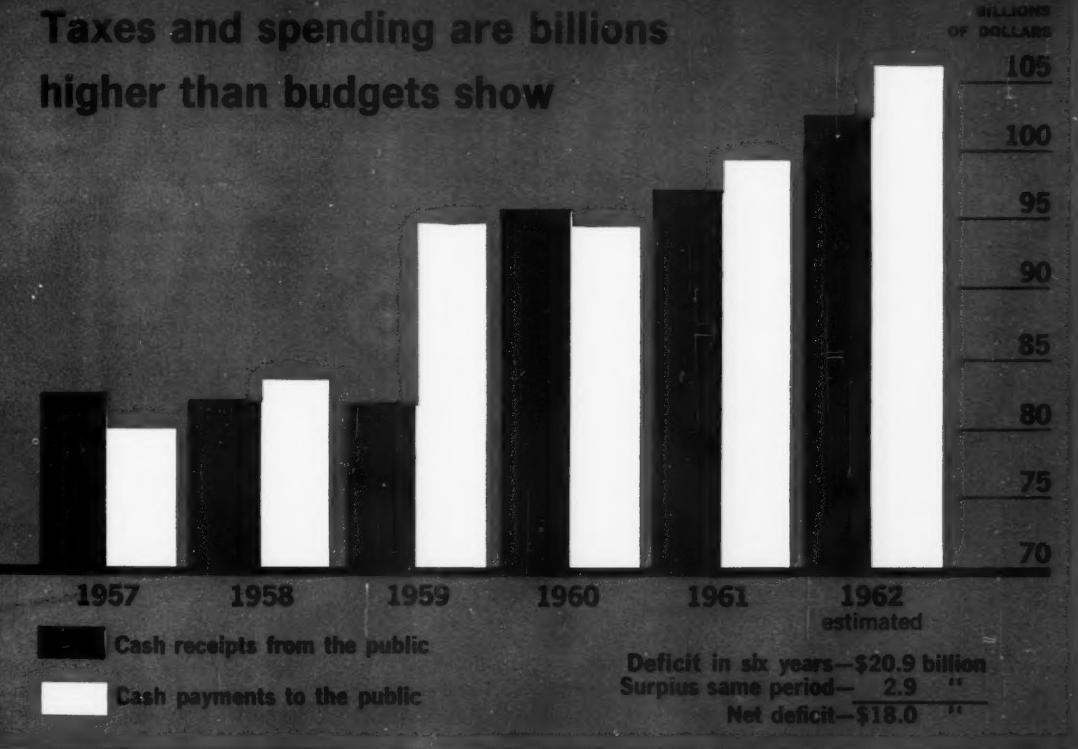
spending had reached \$69 billion—less than double the 1947 level—while trust fund spending was up to \$13 billion, or two and one half times the level just 10 years earlier. For last fiscal year trust fund outlays were up to \$24.5 billion, some 475 per cent of the 1947 figure.

The Kennedy Administration is pushing the figures still higher. Social security benefit liberalizations enacted this year will cost some \$780 million more a year and payroll tax collections will be stepped up to pay for it. With these changes, the normal expansion in benefit payments and the addition of disability payments, social security trust-fund spending, including disability payments, will jump from some \$12.8 billion during the fiscal year just ended to \$14.2 billion this year, \$14.9 billion next year, \$15.5 billion in fiscal 1964. This is in contrast to payments of less than \$2 billion 10 years ago.

On top of that, the Administration proposes to finance an extensive program of hospital and nursing care for old people through social security. The tax increases designed to underwrite this would bring about \$1.5 billion more a

(continued on page 76)

Taxes and spending are billions higher than budgets show



UNION POWER FACES NEW CHALLENGE

Demand grows for action to end labor monopolies

UNION POWER to dictate your business decisions, influence economic trends, and weaken national security will come under heavy attack in the next session of Congress.

A new drive is building up to:

- End the legal immunities which let unions force business costs upward and stifle competition by restraining trade and engaging in make-work and other restrictive practices.
- Curb union monopoly powers by prohibiting industry-wide bargaining which enables a single union to shut down an entire industry and endanger the economy and security of the nation.

These dual objectives will be sought through legislation to remove exemptions from federal antitrust laws. Unions have enjoyed these exemptions since they were small and their economic power was of little national consequence.

Underlying the growing demand to curb union power are the need to build our economic and military strength for the critical struggles against world communism, new union threats, the retarding effect of monopoly practices on business competition and economic growth, and their contribution toward inflation, unemployment, foreign competition and other national problems.

"Labor monopoly practices are pricing the products of American industry off the markets and shackling our economic progress," warns U. S. Congressman Bruce Alger, Republican of Texas. He says our five-million-man pool of unemployment could be reduced substantially if the restrictive practices of labor unions were lifted and American industry were free to compete on a realistic basis with foreign producers. He is sponsoring a bill to cope with the problem.

In the Senate, a measure applicable to all unions has been introduced by Sen. Strom Thurmond of South Carolina and another aimed at Teamsters Union President James R. Hoffa has been proposed by Sen. John L. McClellan of Arkansas. Both senators are Democrats.

"In many industries unions have eliminated, for all practical purposes, any effective competition at either the production or marketing levels," Senator Thurmond says. "It is unmistakably clear that, unless some action is taken to limit this special economic license, our free enterprise system is doomed and we will be rapidly forced into a socialistic system."

The South Carolinian believes that restraint of trade is destructive no matter who exercises it, and that the exemption of labor unions is an inequity which should be corrected.

Proposed law changes

Union monopoly powers are more and more being blamed for rising prices, inflation and other economic ills.

In the opinion of Prof. Edward H. Chamberlin of Harvard University, unions, by exercising monopoly power for their own ends, indirectly "may already have more influence on raising costs and thus prices than do businessmen."

Professor Chamberlin concludes, in an economic analysis of union power for the American Enterprise Association: "There is abundant evidence that unions today do have too much economic power. When this is the case, the public interest requires that steps be taken to reduce it."

Neil H. Jacoby, a member of the President's Council of Economic Advisers in 1953-55, believes unions should be put under antitrust laws as a step in fighting inflation.

The resulting vigorous enforcement of competition will make the whole price system more flexible, says Dr. Jacoby, dean of UCLA's School of Business.

Proposals before Congress to cope with union monopoly powers would, in general, subject unions to antitrust regulation in two ways:

They would limit collective bargaining to legitimate union objectives involving wages, hours and working conditions and outlaw restrictions on use of products and materials or other featherbedding practices, price fixing, artificial market limitations and other restric-

tive trade practices. They would make industry-wide bargaining unlawful and equalize the bargaining power between employer and union. Union bargaining agents would have to be representatives of employees of a single company or a group of employers in a single industry in the same metropolitan area. It would be illegal, except in a single metropolitan area, for a union to represent employees of more than one employer.

The latter provision is intended to remove the power of a large international union to dictate the conditions under which all competing employers in an industry must operate, thus undermining competition, arresting new technological developments, and reducing the incentive for greater efficiency in production which would result in lower prices and thus benefit the economy.

This provision would eliminate industry-wide

strikes and probably solve the problem of national emergency strikes. Without a nationwide strike a national emergency is unlikely.

President's position

The focal point for the legislative battle next year likely will be President Kennedy's request for Congress to relax the Taft-Hartley labor law's 80-day emergency injunction and to provide new and more flexible authority to cope with labor disputes affecting the national welfare.

The Administration and union-supported congressmen no doubt will fight any attempt to limit the size of unions and make industry-wide bargaining illegal, despite earlier attacks on the restrictive trade practices of unions by Mr. Kennedy and some of his advisers. Senator Kennedy seemed to find merit in some antitrust legislation (*continued on page 92*)

Their aim: To close loopholes in antitrust laws



Sen. Strom Thurmond (left), of South Carolina, sponsors bill to correct inequities created by unions' long-standing exemption from antitrust laws. Similar measure to block threat of transportation union combine is sought by Arkansas Sen. John L. McClellan (right), labor rackets investigator

Polls show public alarm over rise in labor power



Rep. Alfred E. Santangelo (left), Democrat of New York, found that surprising 80 per cent of his labor-minded constituents feel unions should be subject to antitrust laws. Another poll by conservative Republican Rep. Edgar W. Hiestand (right) turned up 90 per cent backing in Los Angeles for this view

HOW TO SATISFY THE BOSS

Survey discloses qualities of most value to superiors

DO YOU KNOW what qualities you value most in a subordinate?

A study of top-level businessmen shows that although most bosses concur on what executives should do, they do not agree on how much these acts will ensure success. Few executives will fail, however, if they will:

- Rescue the boss from his mistakes.
- Maintain the authority he has granted.
- Be happy in second place.
- Project the image of the boss he desires.
- Be predictable.

A Michigan State University study of 64 business leaders from 18 industries and 46 companies revealed many other functions that superiors believe are useful, although not guarantees of executive success. These ranged from such personal attributes as "don't dress conspicuously" to such technical imperatives as "know your job thoroughly." One might think that all bosses would emphasize the latter. However, many indicated that

today it is often impossible for a man to know all the technical aspects of his responsibility. More important is the ability to go to others who know or to assemble a staff to supplement your knowledge.

Technical competence counts less than general administrative know-how. This tendency grows sharply with movement toward the top.

Few bosses agree on the relative importance of the subordinate's functions. Consequently, an executive must know precisely what his boss expects. Performing all five of the most frequently mentioned functions will not suffice if the boss does not care for some of them.

A subordinate usually will find at least three of these functions crucial in doing his job successfully. It must also be noted that, if the boss tends to emphasize any one of them, no amount of effort in the other areas will overcome failure to perform that one.

To the rescue

No individual can be completely on top of his responsibility. Hu-

mans make mistakes and are limited in what they can do. Modern business compels the individual to spread his efforts over great stretches of activity. He often must leave undone seemingly trivial matters which later take on great importance. He is often caught in errors that can be embarrassing. A good subordinate will rescue his boss from mistakes of omission or commission.

There are three kinds of rescue:
Preventive—where you rescue your boss from going over an administrative precipice that he is approaching.

Remedial—where you lower a ladder to help him out of a hole.

Camouflage—where you erase traces of his errors. This is popularly known as "covering for the boss."

In all three types, the major problem centers around being intelligently informed about what the boss is doing. Too many bosses expect subordinates to rescue them but fail to keep these subordinates adequately informed. Many times a subordinate's failure to rescue the boss has been attributed to hostility or fear when it was actually due to ignorance. The subordinate simply did not know that a precipice was ahead or that the boss had fallen into a trap.

The rewards to the boss are, of course, apparent. The rewards to the subordinate lie in being rescued by the boss in turn. A boss will be more likely to cover for a subordinate who does the same for him. The catch is that the boss sometimes expects to be rescued but may not rescue in return.

Nevertheless, the subordinate's best hope for getting that help is to ride to the rescue when the boss is snared by errors.

There are many illustrations of what might happen when a rescue is not carried out. Chief among these is the problem of inheriting the boss's job. If you don't work to keep your boss out of jams, you may step into his shoes and be stuck with an impossible task which you helped to create. It is a wise subordinate who works diligently to protect his superior.

Maintaining authority

A fine line must be drawn here so that you use all your authority but no more. Most bosses distrust subordinates who do things that might be viewed as the chief's prerogative without gaining his approval. Some

are quick to see usurpation in the slightest deviation from established lines of authority.

To such bosses all subordinates are angry young men eager to displace their superiors. Sometimes such distrust is justified. It is natural to want to grow and expand. Whether trust is justified or not, bosses tend to hold subordinates in check, letting the reins out gradually as the subordinates acquire the necessary sense of responsibility. This is the way it should be. Our society is held together by respect for authority and competence.

The major problem involved in living within the authority granted by the boss is that it may conflict at times with rescuing him.

For example, a chemical company president went away after finishing the final draft of an annual report. In the typing stage the vice president saw a major mistake which had to be corrected immediately because the report had to be turned over that same afternoon to the secretary of the board. Although he had no authority to do so, he made the correction and saved the boss from a grievous error. When the boss was informed of the change, he was reluctantly grateful but wary of this assumption of his authority.

What kept this act from being viewed as usurpation was the positive motive of the subordinate. True usurpation is assumption of authority with intent to restrict or dilute a superior's effectiveness. When the subordinate acts for the acknowledged interest of higher authority the risk is not as great. But as one executive put it, "If you go beyond your delegated authority, you'd better be sure that you are right." The wise subordinate lives within his assigned area of authority except when he must rescue his boss.

Be happy with second place

All subordinates try to be distinct from their bosses. Of course, they are naturally differentiated because of their lower position, the value of their tasks and assignments, salaries and offices. Apparently, this is not quite enough for either superior or subordinate. The executives studied expressed a desire to have people above and below them who are different in mannerisms and style. Uniformity is not in as great demand as many people feel.

But an unpardonable sin to many bosses is consistent upstaging. Do not excessively and unnecessarily

differentiate yourself from your boss so as to become the center of attention. For example, a vice president of marketing was always adding his own interpretation of the president's statements. Because he excelled at expressing himself, he could always say things better and more clearly. Gradually, the boss's appreciation for him turned into hostility. "Little Sir Echo" was becoming too much of a soloist.

Another subordinate was always quick to make clear which ideas were his and which came from his boss in any program that achieved success. Some superiors may tol-

erate and even accept this, but many will not appreciate subordinates who have an insatiable thirst for glory. The reason is not simply that the boss loses his halo, but because glory-seeking can ruin a good subordinate.

It is a wise subordinate who is satisfied with second place. This not only will prevent him from coming into conflict with others, but will keep him from disastrously inflating his own ego.

Project boss's image

The subordinate often recognizes
(continued on page 47)

You'll improve your chance of executive success if you:

Rescue the boss
from his own mistakes

Maintain the authority
he has granted you

Be satisfied with
your role as subordinate

Project the image
of the boss he desires

Be properly predictable
in your behavior

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook

AGRICULTURE

Meat supplies will be plentiful.

The output of beef has expanded substantially—14 per cent in the past three years compared to only 6.5 per cent in cattle numbers, according to the U. S. Department of Agriculture.

This is only the third year of the upward trend of cattle numbers which usually lasts for six or seven years. However, this is the first rising cycle in which the number of dairy cows has continued to decline.

Consumption is also increasing. As a result, fed cattle prices this fall may decline only slightly below a year ago. However, drought conditions could depress cattle prices and even arrest or reverse the expansion in breeding herds.

The upward swing in the hog cycle may end next year. The Department of Agriculture reports that this fall's pig crop is expected to be up only three per cent over last year when the increase was seven per cent. Heavier fall marketings will probably keep hog prices slightly below last year and may even result in fewer hogs Jan. 1, 1962.

CONSTRUCTION

Residential construction is moving into a transition period. Housing volumes which, since World War II, usually moved in the opposite direction to the economy at large, now tend to move with it.

From 1919 to 1938, when the economy reached peak levels five

times and hit troughs six times, residential building contracts reached peaks and troughs in 10 of the 11 cases before or simultaneously with the general economy.

After World War II, two new factors worked to produce countercyclical patterns. The first was a demand backlog. The second was government action to liberalize housing credit during recession and tighten it during booms.

Successive liberalizations of credit over the years have left scant margin for more of the same kind of stimulation of housing during recessions. More important, the backlog of demand is virtually gone. Consequently, housing is now tending to become pro-cyclical—and the probable future impact of government variations in housing credit terms could be toward some stability in housing markets.

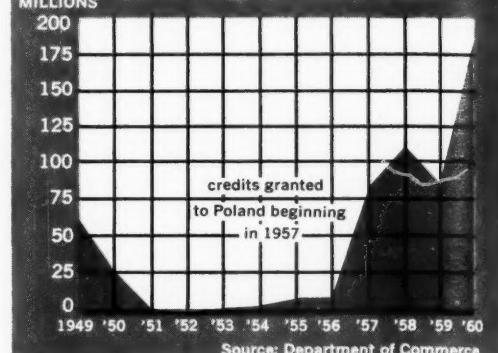
CREDIT & FINANCE

So far this year our gold position has shown a fairly steady and substantial improvement.

Holdings of gold and convertible currencies by U. S. monetary authorities during the second quarter exceeded the increase in demand liabilities to foreign countries by about \$60 million.

This increase has come primarily as a result of extraordinary repayments of government loans by Germany (\$590 million), the Netherlands (\$40 million) and the Philippines (\$20 million). If these repayments had not been made, our

U. S. EXPORTS TO SOVIET BLOC
RISING PRIOR TO BERLIN CRISIS



Source: Department of Commerce

net liquidity position would have fallen about \$590 million.

Adjusted for seasonal factors, this represents a decline of about \$450 million, or an annual rate of \$1.8 billion. For the preceding three years, our liquidity position declined an average of almost \$4 billion a year.

DISTRIBUTION

The competitive scramble among retail stores is quickening.

The retailers' problem is to build sales volume and earnings in the face of mounting operating expenses. Techniques employed to lure additional trade include new customer services, selling by phone, door-to-door selling, extra night openings, and automatic vending.

A survey of the retail drug industry shows how recent developments are affecting retailing.

A rise in nearly every type of operating expense lowered the average drug store's net profit from 5.8 per cent of sales in 1959 to 5.3 per cent in 1960.

Sixteen per cent of all stores surveyed reported no profit at all for 1960—the highest percentage of no-profit stores in recent years.

Only 47 per cent of the stores reported net earnings of five per cent or more, the lowest ratio for such stores in ten years.

FOREIGN TRADE

The House Rules Committee has approved legislation which would

Chamber of Commerce of the United States

set up a five-man committee to study whether to impose further curbs on exports to Iron Curtain countries.

Administration leaders maintain that the authority of the present Export Control Act is flexible enough to meet changing world situations. Accordingly, U. S. officials have been instructed to take a harder look at proposed exports to the area, with no formal change in regulations.

Trade between the United States and the Soviet bloc is limited to a few items and represents less than one per cent of all U. S. foreign trade. A large part of this is agricultural sales to Poland.

No trade is permitted with Communist China, North Korea and North Vietnam.

The limited scope of this trade suggests that a U. S. boycott would have little economic impact on the bloc, nor would it affect U. S. exports sharply. The problem, therefore, lies in the composition of such shipments. The object is to deter, or at least not to contribute to, the build-up of Red military potential.

GOVERNMENT SPENDING

President Kennedy has pledged that next January he will present a budget that is "strictly in balance." This is taken to mean that, although the President will propose spending levels probably exceeding \$90 billion, he will expect additional revenues to offset this increase.

This would require revenues exceeding current estimates for fiscal 1962 by \$8 billion. The President will undoubtedly renew his request for increased postal rates and other revenue measures to offset his proposed spending.

Since 1962 is an election year, a drive to increase federal salaries can be anticipated. Such a raise could do much to upset the budget.

In addition, the President has indicated that he will try again on welfare programs which did not pass this session. Such legislation as federal aid to education and medical care for the aged would impose budgetary strains.

LABOR

Congress will face pressing labor problems when it returns.

The defeat of President Kennedy's Reorganization Plan No. 5

leaves unsolved the problem of reducing the backlog of the National Labor Relations Board.

One proposal is to abolish the NLRB and transfer its decisional authority to district or regional labor courts. Under another proposal the Board would handle only cases of national importance with the states deciding the others.

Emergency strike legislation may be another primary issue. This issue would disappear if unions were placed under the antitrust laws. (See page 38.)

Suggestions on how to handle the emergency problem include additional weapons for presidential use. Management, however, believes that the Taft-Hartley provisions have worked satisfactorily and should not be changed. Repeal of Section 14 (b) of Taft-Hartley which permits the states to enact right-to-work laws, reopening of the secondary boycott loopholes by passage of the "common situs" bill are other pending issues.

NATURAL RESOURCES

Current excitement over the desalting of sea and brackish water seems premature.

Actual desalting costs at the new Freeport, Texas, plant and other installations are reported to be approximately \$1 a thousand gallons and up. This figure represents only the cost of operating the plant and does not include delivery or administrative expenses.

The average cost of 1,000 gallons of water to public water suppliers, as indicated by a recent survey of 497 utilities in the United States, is 12.3 cents. The cost for treatment of water, including softening, approximates only five cents per 1,000 gallons. This five cent figure must be compared with the \$1 cost of desalting.

Research in desalinization is important as a means of preparing the nation for the future and as a possible benefit for water short areas. In the United States, however, we are using only about 10 per cent of the total fresh-water supply economically available. Water-shortage problems are not national.

TAXATION

Tax reform will be the first order of major business when the Ways and Means Committee reconvenes

next January. President Kennedy has promised Administration proposals early.

These will undoubtedly include many of the proposals of his April 20 tax message.

In turning thumbs down on legislation this year, the Ways and Means Committee has offered the nation's business community an opportunity to study the draft bill that came out of this year's hearings. This provides something tangible with which to work. Hearings in May were based only on the nebulous recommendations of the Treasury.

The most important development to come out of this year's action was the firm rejection by most businessmen of the investment tax credit.

As a result, depreciation rate reform is now very much alive.

Those interested in depreciation have an opportunity to develop a practical system for presentation to the Ways and Means Committee.

Also possible is a rise in personal and corporate income taxes. Action here will depend on the budget picture and possible defense requirements.

TRANSPORTATION

Soon after Congress returns it will receive from the Administration a list of suggestions designed to aid the transportation industry.

The Interstate Commerce Commission already has submitted a 10 point list of recommendations to the Senate Commerce Committee. Especially noteworthy among these is the call for direct federal subsidies to bolster railroad passenger service. The other suggested aids are not new, but the Commission feels that they are vitally needed.

The proposals which the Secretary of Commerce will send to the Capitol will undoubtedly parallel those of the Commission to a large degree. If the industry's critical financial situation continues, Congress may rush action on some of the less controversial recommendations such as accelerated depreciation allowance on carrier equipment for income tax purposes and permission to carriers to establish a construction reserve fund. Also, the climate might be right for a realistic revaluation of the excise tax on transportation service.

WILL TO FIGHT

continued from page 35

Americans of Philippine guerrillas even as we fought beside them and depended on them for our lives. It made one wonder if we were wholly worthy of leadership.

This weakness in proper motivation was more widely revealed in the Korean war when so many Americans who were prisoners of war were confused by communist attacks on their beliefs and values and were used by the communists for propaganda advantage.

Since Korea our armed forces information and education program has expanded, but not fast enough. That is one reason why a new long-

range program of Armed Forces Information and Education is being launched.

Its objectives are:

- To increase the serviceman's understanding of the principles and precepts that underlie our society so he can better appreciate our way of life.
- To enlarge his comprehension of the threat to our way of life so as to put him on his guard.
- To improve his knowledge of foreign allies with whom he may be in contact.

The plan is to reinforce the beliefs learned at home, in church and at school. Without continuing information as the world changes, a

soldier's thinking may get stale. A gap in information will be filled with rumor and misinformation. He can more easily be swayed by false premises of an enemy.

The Office of Armed Forces Information and Education plans a study program comprising films and pamphlets for the next three years. The program includes six areas:

1. *Political and civic.* Political theory involving the Constitution and contrasting Marxist doctrine will be covered. The reason for the founding of our country, and the inherent freedoms man sought to establish will be shown. The government which resulted from these theories and background will be described.

2. *Sociological.* The part played by religion, arts, family and various social groups will be covered in this unit. Soviet tactics in the cultural offensive will be examined.

3. *Psychological.* Propaganda and its effects will be considered. The use of radio, television, pamphlets, and motion pictures will be analyzed and assessed. Tactics and results emanating from this approach will be discussed.

4. *Economic.* The economy of a country is a key to its progress and standard of living. The free enterprise system will be described, as will the control of business and industry in communist countries. Labor, farming, industry, business and foreign trade will be considered.

5. *Military and police.* The role of law and order, with descriptions of military and police organizations, will be studied. The changing attitudes toward armed conflict and law enforcement and the resulting change of tactics will be covered.

6. *Scientific and educational.* The role and importance of education, science and space will be discussed. Educational trends and a changing emphasis will be considered. Contrasting educational systems will be covered.

Certainly training in these and other areas is too complicated an assignment for the average platoon leader to initiate. We can't expect our troops to be able to conduct such a program on their own without such educational and informational material as is envisioned in this project.

I believe our armed forces should also be given an opportunity to discuss current issues such as federal aid to education or the proposed peace agency.

Federal aid to education has

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Nation's Business

WILL TO FIGHT

continued

been described widely as necessary. However, close examination, in my opinion, reveals the threat that a national program of financing will inevitably lead to centralized control of our schools, and an easy opportunity for enemy infiltration, and eventually thought control.

The newly proposed peace agency is instantly opposed by those who fear that any distraction from armament now would be a sign of national weakness. But the agency could be a valuable research and advisory unit seeking the noblest of goals with no possible risk to our security or weakening of our determination.

By discussing these issues, our military will be helping to promote true democracy by taking part in the opinion-making process that our system of government requires.

We can develop dedication and understanding in our servicemen if we can make clearer to them our

basic American truths as contrasted with the communists' big lie.

The ideas in the Declaration of Independence were the base on which we erected the Constitution and Bill of Rights. The key truth that we hold to be self-evident and the most powerful truth against communism is that we are endowed by our Creator "with certain unalienable rights, among these are life, liberty and the pursuit of happiness."

In the Soviet Union, with its promises of peoples' democracies and classless societies, the belief is that a man's rights come from the state. Since they are granted by the state, of course, the state can take them away.

In the United States, we believe that God gave us our rights and that being inalienable, they cannot be taken away. This is the ideological gulf separating American and Soviet philosophies that must be imprinted indelibly on the minds of our fighting men. It should be the core idea to keep before the servicemen who defend this nation. END

SATISFY THE BOSS

continued from page 41

the boss of his immediate superior to be the true center of authority. Consequently, his immediate boss really plays an in-between role.

Many middle bosses fail to reflect properly the qualities of their superiors. Some resent their middle-man position and try to appear self-sufficient in the eyes of their subordinates. They may strive to appear independent of their superiors in attitude and policy. Too often this independent stance before one's subordinates may lessen a superior's prestige and authority.

The superior ceases to be interpreted properly and reliably to the middle boss's subordinates. In one case a middle boss became so accustomed to saying "No! And if I take it to the boss he will only say no," that he was able to prevent his subordinates from bringing up many legitimate problems. Finally, their dissatisfaction broke into the open. A delegation asked permission to go over their superior's head and air their complaints.

Caught in a bind, his only out was to assure them once again that the top boss would only become infuriated and that their best chance was to trust him to work in their behalf. Later, after perfunctory consultation with his superior, he announced a few changes that were

well within his jurisdiction to make anyway. He had succeeded in projecting qualities that were not true of the top boss.

Another executive in a similar case got caught. When he was out of town an aroused delegation went to his superior and made their complaints. The top man was quite upset to know that they were angry and wondered why their feelings had not been reported to him. The men's statements revealed that they had a distorted picture of him. Later, when the middle boss returned, the superior asked why he had not reported these matters. He replied, "Well, I did not think that you should be bothered." The top boss remarked in disgust, "That is exactly the impression the men had, too, and it is wrong."

It's a mistake to misuse the opportunity of projecting favorable qualities of your boss to your subordinates. A man's effectiveness with his subordinates depends largely upon the closeness between himself and his superior. In effect, the favorable qualities of the top boss may rub off onto the middle boss who properly represents his superior to his subordinates. He grows as he helps his boss to grow in the eyes of the men in the ranks.

Of course, this can be carried too

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SATISFY THE BOSS

continued

far. One should not picture his superior as a superman.

Superiors rely upon subordinates to transmit qualities that are desirable and necessary for the smooth operation of the organization. When these qualities are not transmitted effectively, myths and distortions set in that can disastrously affect relationships of various people, if not the entire organization.

Be predictable

The effectiveness of an organization depends largely upon each individual playing a highly predictable role. As one executive said, "Shifting, moving objects make integrating activities well nigh impossible." A subordinate cannot faithfully serve a boss who will not hold still. A superior cannot entrust responsibility to a subordinate who is erratic.

Subordinates do not always understand this. Their behavior often

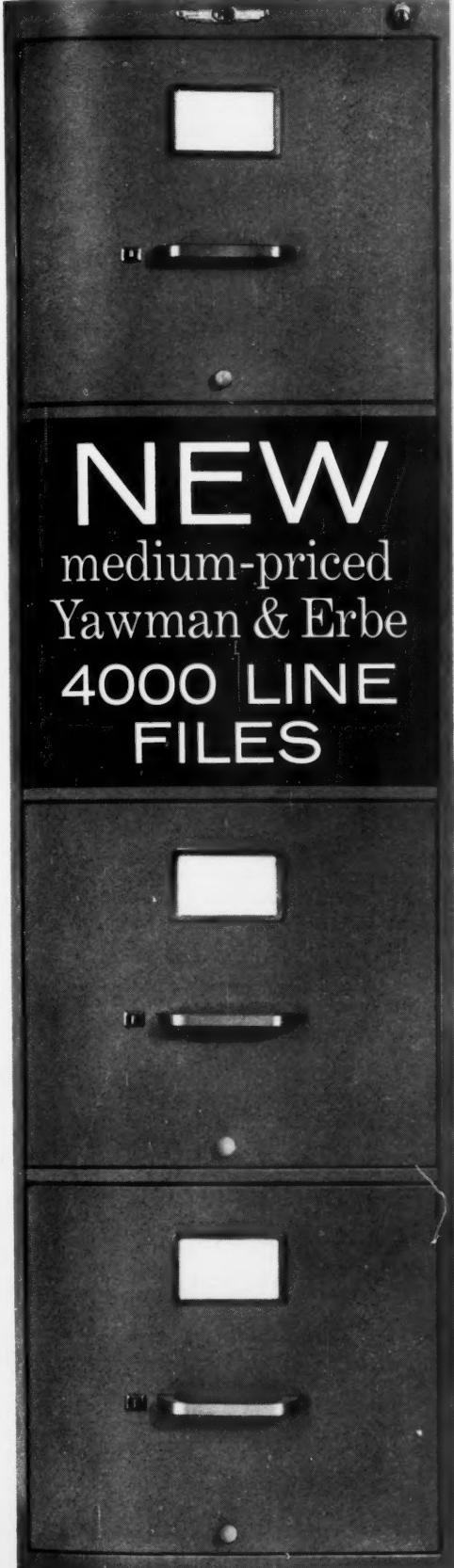
Success comes as much from developing good subordinates as satisfying your boss. This skill will be discussed next month in Nation's Business

goes to the extremes of the conformity-creativity pattern. Many of them seem to feel that one can escape from being erratic by conforming to the most minute expectations of the boss. In practice this achieves predictability for the subordinate by overreliance upon the boss.

Other subordinates try to escape from being labeled "conformist" by developing unusual solutions to problems. They confuse creativity with unpredictability. Creativity of this type could tear an organization apart.

Superiors seem to want creative subordinates whose decisions appear highly reasonable from a study of the problems and facts involved. For example, one president reported: "I do not expect my subordinate to make my decisions for me, nor should he expect me to make his for him. But I do expect that whatever decisions he makes can be predicted from an examination of his analysis of the circumstances involved."

This statement points up a real issue. Although the subordinate



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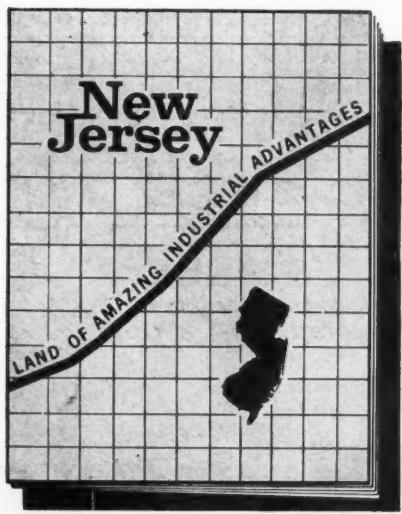
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SATISFY THE BOSS

continued

must at times make crucial decisions that show independence of judgment, it is risky to make decisions that cannot be "reasonably understood by reasonable men." This kind of common sense is not so common.

Today there is much talk about conformity in our society and in business in particular. Many are being encouraged to become rebels and to throw off the shackles of the "organization man."

Many of these accusations are founded on a misunderstanding of the truly creative opportunities in business. To be sure, no society or organization can remain alive and healthy if subordinates are merely reflections of their bosses.

However, no society or organization populated wholly by rebels can long exist. The MSU study revealed a high appreciation for the subordinate whose ideas and acts possess uncommon reasonableness. The boss can see the soundness of his subordinate's acts from a careful examination of the problem he faces and the choices available at the moment the decision was made.

This kind of predictability was illustrated by the chairman of a large oil company who commented to a board member on a decision made by his president: "I don't know exactly why Ben made this decision, but you can be sure that, after he tells us, you will see the logic involved."

A superior's confidence in a subordinate is based on predictability. If erratic action occurs repeatedly, the essential confidence that holds together an effective superior-subordinate team is jeopardized and may be shattered.

If there is one overriding executive sin, it is failure to gain the confidence and respect of the boss for whom one works. Failure to look out for his interest, to maintain the authority he has granted, to be content with a secondary role, to project the desirable image of the boss, and to be reliable drives superiors and subordinates apart. When this happens both organizational and executive effectiveness are impaired.

— EUGENE EMERSON JENNINGS

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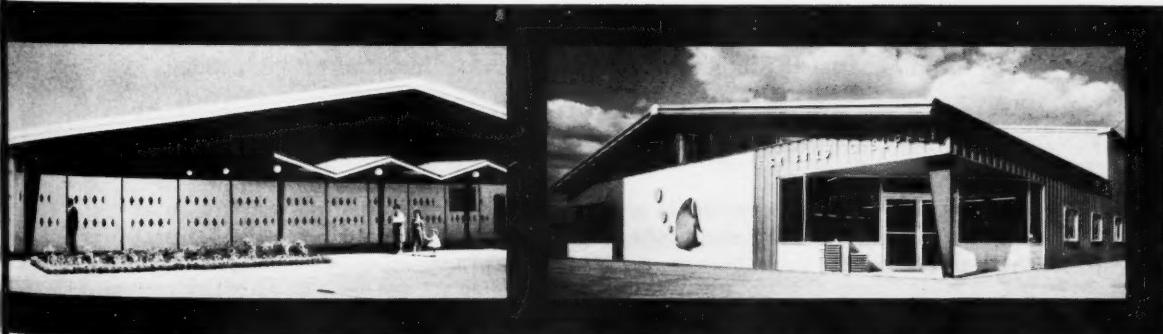
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THE FUTURE OF THE COLD WAR

After Berlin—

Authorities on Soviet strategy forecast coming moves in Kremlin's drive

WHERE WILL RUSSIA strike next?

Top leaders of international communism will meet this month in Moscow to plan their future thrusts.

Against the backdrop of this meeting and heightened international tension, NATION'S BUSINESS asked five leading authorities on Soviet strategy to forecast future developments in the Cold War.

Here are a few of their predictions:

- No war over Berlin, but a stepped-up Soviet push to destroy NATO.
- Divisive, brink-of-war maneuvers by Russia to neutralize or absorb all of Germany.
- New Red stabs at exposed nations in Southeast Asia, Africa, Latin America.
- No real chance of a break-up in the Moscow-Peiping axis.
- Tests of free world leadership which will require major changes in present western policies if the grim eventuality of a world overrun by communism is to be averted.

Participating in the NATION'S BUSINESS symposium were Dr. Charles H. Malik, former president of the United Nations General Assembly; Dr. Sidney Hook of New York University, writer, teacher, and student of Marxism; Dr. Philip E. Moseley, director of studies for the Council on Foreign Relations and a man who has observed communist methodology close up as a State Department specialist and scholar; Don Salvador de Madariaga, Spanish historian and former diplomat, and Dr. Max F. Millikan, director of the Center for International Studies of the Massachusetts Institute of Technology.

Each authority was invited to participate because of his special qualifications for analyzing and projecting broad trends in the struggle between the East and West. All were asked:

1. Assuming that the crisis over Berlin is resolved without war, what do you foresee as the future direction of communist world policy and what major tactical shifts do you expect within the next few years?
2. What opportunities do you see for a western political counteroffensive against the communist drive?
3. What areas are the most likely theaters of Laos-like troublemaking by the Soviets in the near future?
4. What does the ideological rift between Russia and China promise for the future?
5. Are internal developments in the Soviet Union, such as continuing industrialization, likely to reduce Russian pressure for expansion?

what next



P. X

Here is the assessment of Dr. Sidney Hook, head of the Department of Philosophy at New York University. Dr. Hook is author of a number of books, including "The Ambiguous Legacy: Marx and the Marxists." He is widely esteemed as an analyst of communist methods and motivation.

"Massive attempt to dissolve NATO"

1. If the West does not yield, the Berlin crisis will be resolved without war because the communists will for the moment rest content with, 1, the absorption of East Berlin completely into the orbit of Red Europe and, 2, signing a peace treaty with East Germany.

The Soviets then will pursue several objectives at once. They will attempt to dissolve NATO by launching another peace campaign, using as a spearhead the pacifist

and unilateral disarmament movement in the West, especially in England, into which they have heavily infiltrated.

They will make it appear that continued "permission" for the allies to have access to West Berlin is a sign of communist reasonableness and a defeat for western warmongers. At the same time, the Soviet Union will throw itself behind a propaganda campaign for the liberation of Quemoy, Matsu

and Formosa, partly to prove to the Chinese that they are not forgotten allies and partly to isolate the United States still further from its allies.

Meanwhile, Russia will press for admission of communist China to the United Nations, which most nations will agree to. Finally, in about a year, the Berlin issue will be heated up again. The East German communist government will begin to curb, first on technical, then on political grounds, allied access to West Berlin. If the allies follow the same strategy they have followed until now (protests but no immediate retaliation), they will be frozen out of West Berlin and it will be absorbed like East Berlin.

By that time, West Germany may be ready to quit NATO for a Soviet guarantee of independence to a Germany unified by free elections. Khrushchev may, as bait, even permit free elections of a sort if Germany promises to disarm and break western ties. But once Germany is out of NATO, Khrushchev will occupy Germany on the pretext that the industrialists are secretly arming.

With the help of German neutralists, the whole of that nation will become what East Germany is now.

2. The possibility of a western political counteroffensive depends upon making the Kremlin realize that every hostile act will provoke a counteraction of at least the same magnitude. The Kremlin will not go to war because it is winning by bluff. It is the best informed government in the world and knows pretty accurately what the West is planning to do. If the United States were to recall all military dependents from Europe and get behind a serious bomb shelter plan on a national scale, Khrushchev would bargain more honestly.

The Western position in Berlin will always be untenable unless we press for the fulfillment of the Soviet pledges on free elections made

at Potsdam and Geneva (as late as 1955) or unless the West gets a corridor from West Germany to West Berlin.

There should be two prongs to the western political counteroffensive. The first is to picture the Soviet Union as the worst colonialist power in the world today; the second, to restate the old truth in more dramatic form, that only if we are prepared to fight for freedom can we preserve peace. The communists fear war more than do those who love freedom because their ideology makes survival the be-all and end-all of life. It is meaningless for them to go down fighting for a lost cause. So long as we are strong enough to make them doubt that war means a sure victory for them, they will never go to war.

3. The most likely theaters of Laos-like troublemaking are: In Asia, support of Sukarno and Indonesian claims against West Irian; continued support of left-socialist agitation against the United States in Japan and Okinawa. In Africa, more explicit support of Algeria against France. In the Western Hemisphere, continued and more effective use of Castro in Latin America. In the Near East, a bid for Arab support or at least a new propaganda campaign against Israel. In Europe, the next likely target will be Italy, where the Kremlin will work to bring Togliatti's communist and Nenni's left socialist party together in order to take over Italy peacefully *à la* Czechoslovakia. This would crumble whatever was left of NATO after a Berlin debacle.

4. The ideological rift between Red China and the Soviet Union centers on one point. China is ready to risk war only with the USSR at her side. She thinks she can survive, even if she loses half her population. The Kremlin regards this as "infantile leftism."

The USSR, to prove to China that her policy is best, will intensify the Cold War. The more victories Khrushchev can show, the more entrenched his leadership in the international communist movement will become.

5. There is a great deal of wishful thinking about the effects of Soviet industrialization on the pressure for expansion. It confuses two things. When the Soviet Union was politically unstable—from 1924 to 1935—

the Kremlin took a relatively conciliatory line.

Once factional differences were liquidated, the growth of industrialization meant the growth of confidence. Because of the absence of freedom and an independent public opinion, the demands of the citizens for consumer goods can now be ignored and their hard-earned products used as political weapons.

The paradox of continuing Soviet industrialization is this: On one hand, the country becomes richer and more powerful with a greater stake in the preservation of peace lest all the achievements of the past 44 years be lost; on the other hand, the greater the industrialization and therefore the greater the military potential, the greater the power the Kremlin can exert, the greater the fear the Kremlin can inspire among small nations and neutrals. But it should be clear that so long as the West retains the deterrent and is prepared to fight for freedom, the Russians will back down.

"Soviet aim: Neutralize Germany"



Dr. Charles Malik, former Lebanese diplomat and president of the United Nations General Assembly, discusses the long-range goals of world communism. A distinguished writer, lecturer and teacher, Dr. Malik now is University Professor at the American University in Washington, D. C., and Professor of Philosophy at the American University at Beirut, Lebanon.

1. Communist world policy will continue to be a determined attempt to break up the North Atlantic Treaty Organization by fomenting friction among its members and, in particular, by seeking to detach Germany from this organization.

The primary aim is to neutralize Germany and, if possible, absorb it into the Eastern European system. This aim partially coincides with that of all those who, for various reasons, desire to see a permanently weak and subordinate Germany. In

addition, international communism will seek to penetrate further both the Middle East and the Western Hemisphere.

The gathering of neutrals in Belgrade has demonstrated that international communism has better means of influencing the policies of these countries than has the western world. The neutral countries have learned to fear and therefore to placate international communism far more than to fear and placate the West.

The resumption of atomic tests by the Soviet Union could further intimidate and disintegrate the ranks of the West.

2. Opportunities for a western counteroffensive against the communist drive are great, provided the western nations achieve greater unity of vision, method and objective, and provided they understand that the whole of western civilization is at stake and not only the security or prosperity of France or the United Kingdom or Italy or the United States.

The West would have adequate joint resources to push back communism if only it did not disintegrate under its own internal jealousies and rivalries. What is needed is understanding of the nature of the struggle and leadership which will cause the western nations to subordinate their nationalisms to the common good. This leadership may not be forthcoming and the processes of western disintegration may be too far advanced; in which case we may be witnessing an epochal world transformation.

3. Laos-like troublemaking is possible in Southeast Asia, in the Middle East, in Latin America through Castro, and even in Italy and France, where there are strong communist followings.

4. I do not think the ideological rift between Russia and China is important. By the end of this century China and Russia are likely to fall out with each other on purely political and economic grounds, regardless of ideology. But for the significantly immediate future the West can obtain no comfort from any so called rift.

5. I do not believe internal developments in the Soviet Union, due to industrialization, are likely to affect the fundamental Marxist-Leninist policy of proletarian internationalism and the Marxist-Leninist hatred for everything western. Under the pressure of these two basic obsessions, communism will always seek to destroy every noncommunist system.

"Regional alliances best hope of free world"



This is the belief of Dr. Philip E. Mosley, director of studies for the Council on Foreign Relations, Inc., historian and former U.S. diplomat. Dr. Mosley has made numerous trips to the Soviet Union.

1. Moscow's basic purpose is to destroy NATO and thereby undermine world confidence in the power and leadership of the United States.

A failure by the United States and its allies to uphold their promise to protect West Berlin would, Khrushchev feels sure, lead to the rapid dismantling, not only of NATO, but of all other U.S.-inspired defensive blocs, and constitute a giant step toward isolating the United States.

Assuming that West Berlin remains an outpost of the free world, Khrushchev is likely to tone down his nuclear threats, emphasize the peaceful aspect of coexistence, and redouble his political, economic and cultural efforts to win the uncommitted countries. He will seek to turn a prolonged stalemate into a piecemeal political victory by exploiting new Cubas and new Laoses, but he will probably be wary of stirring up new centers of communist-free world confrontation.

2. One of the most promising opportunities for a successful

counteroffensive lies in building consolidated regional groups. With the recent decision of the Macmillan government to negotiate for Britain to join the European Economic Community, the West may be entering into a new phase of growing strength and unity.

We have made some sacrifices, and we will have to make more, to help build a strong Europe, but the long-run gains to the free world can be vast.

We are also encouraging the first steps toward economic consolidation and cooperation in Latin America. Likewise, over the next five to ten years several large regional groupings may emerge in Africa south of the Sahara and perhaps in North Africa. Perhaps India and Pakistan will overcome their antagonism, with the help of aggressive pressure from communist China. The non-communist countries of Southeast Asia are taking some modest steps toward regional understanding.

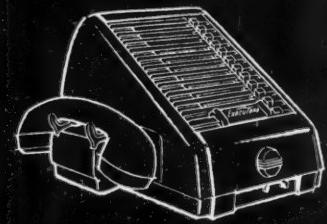
Stable regional groupings, able to deal from independent strength

Future of the cold war

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with both communist and free-world powers, will improve the prospects for the noncommunist evolution of that uncommitted third which the communist powers now regard as their future allies.

Through the United Nations and other international organizations, through increased technical and economic assistance, and through the enlightened cooperation of private investment and private enterprise, the United States and other economically advanced nations can exert a powerful influence on this evolution. To do this, they must show concretely and dramatically how private enterprise, both local and international, can help the emerging countries achieve national growth.

3. Assuming the probable consolidation of a procommunist regime in Laos, we are most likely to see a sharp political struggle in several countries of Southeast Asia. The struggle in South Vietnam has not yet reached a turning point. A new struggle may begin in northern Thailand.

Malaya may revert to guerrilla warfare if the precarious cooperation of its racial groups is upset. Despite its recent wooing of Burma, communist China has a capacity to provoke widespread dissension and civil conflict there.

Although Khrushchev has repeatedly predicted domestic conflict in Iran, he may be underestimating the forces of orderly change. Afghanistan has been drawn far within the Soviet economic orbit, but it displays no serious political vulnerabilities to Soviet pressure, except for its territorial dispute with Pakistan.

Over the next five years greater dangers of Soviet expansion are accumulating in northeast and east Africa.

The West's ability to maintain peace between Ethiopia and Somalia is likely to be tested before long, and either dissatisfied side will find Soviet aid available.

The movement of the East African peoples toward independence is certain to be far more painful and turbulent than it has been in West Africa, and disputes over the future of European ownership of land, mines and businesses open the way to Soviet exploitation.

Finally, several countries of Latin America may follow Castro's example, though they are likely to prefer a Soviet-protected anti-U.S. neutralism to all-out alignment with the communist bloc.

Many countries are likely, from time to time, to shift their alignments. At times they will cooperate with the communist bloc; at other times they will try to avoid its close embrace. Flexibility in judgment and promptness in action will be at a premium.

4. For five to ten years the differences of aims between Soviet Russia and Red China are likely to bring no tangible advantages to the free world. The two countries are likely to bridge their differences by compromise. Whether their rivalry will ever increase the freedom of choice for smaller communist countries remains doubtful.

Even if China acquires the atom bomb, the balance of power will not change greatly.

So far, this rivalry seems to have resulted in committing Soviet strength to slightly more adventurous policies than the Soviet Union would perhaps have adopted on its own. It is not likely, however, that Khrushchev or his successor will take undue risks in distant areas such as in Africa or Latin America.

5. Continuing industrialization has provided the Soviet government with a powerful and highly developed military technology. It also supports a substantial program of credits for the development of friendly underdeveloped countries. The slow but constant improvement in the supply of consumer goods and the spurt in housing have given the Soviet people greater confidence in their government's desire and ability to provide them with an improving standard of living. These changes, combined with a somewhat more varied artistic and literary life and a decline in the day-to-day fear of the political police, have lessened the long-standing tensions between ruled and rulers. For the younger people, especially, things look good. They take comfort in this as well as a deep pride in Russia's prestige as a world power.

The pressure for expansion does not arise from the people. It arises from the ideology of the Communist Party. Successful industrialization,



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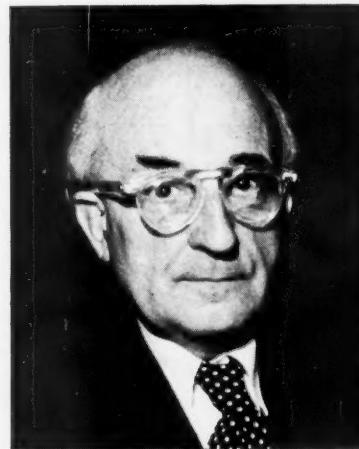
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Future of the cold war *continued*

the party monopoly over education and information, national pride—all these add great power to the com-

munists' dogmatic claims to use Russia's great human and other resources to achieve world leadership.

"Strategy cannot change"



Don Salvador de Madariaga, historian and one-time Spanish Ambassador to the United States, foresees no substantial change in policies of the Kremlin. Señor Madariaga has been in exile from Spain for 25 years.

1. The policy of the Soviet Union combines rigid strategy and flexible tactics. The strategy is rigid because the Soviet Union pursues a clearly defined aim: the domination of the world by the Communist Party, itself controlled, if not altogether dominated, by the Soviet Union.

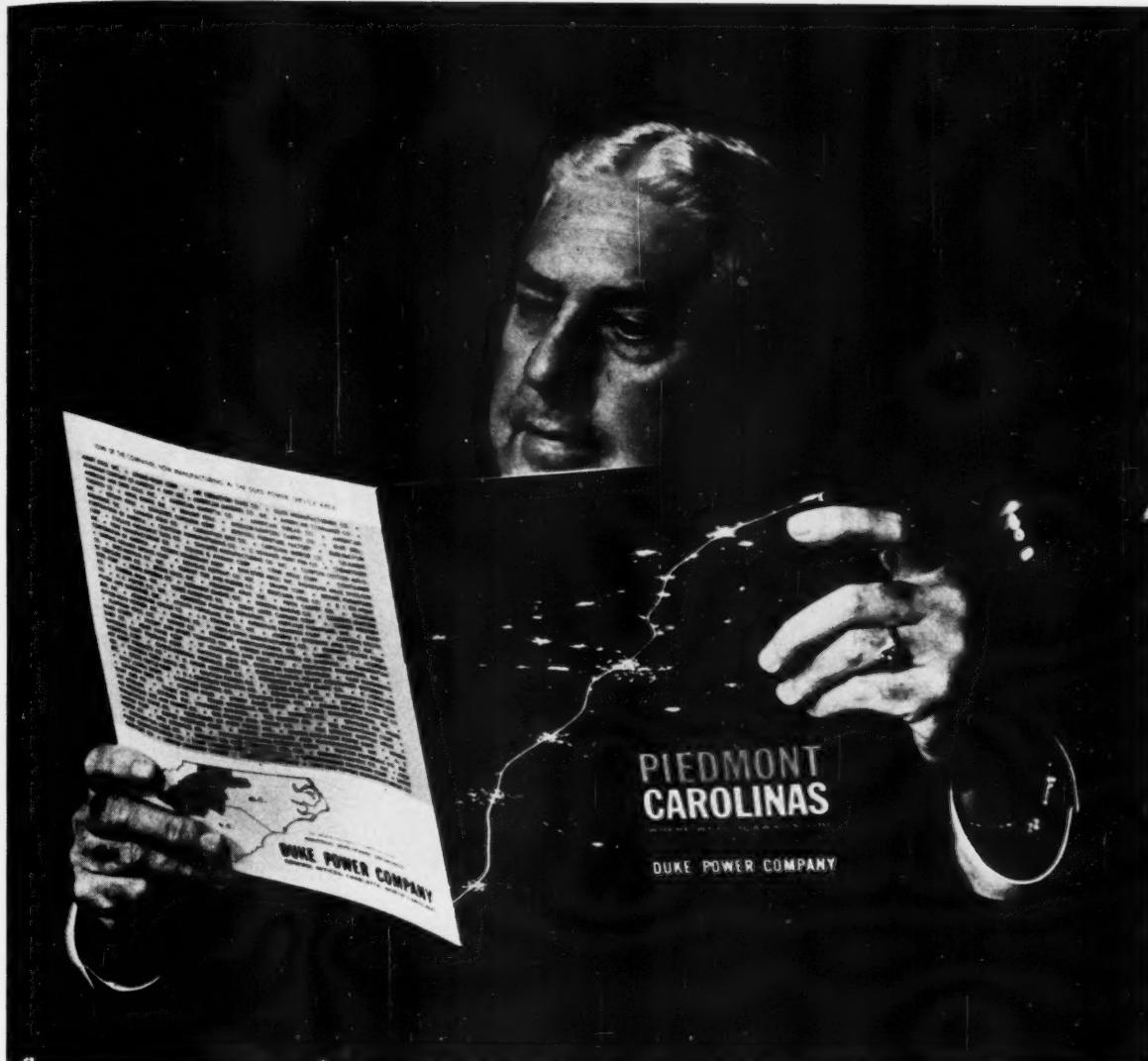
Its tactics have to be flexible because the approaches to the strategic aim are varied. The Cold War is never meant to be ended or even assuaged by concessions; it seeks the conquest of public opinion, with a view to obtaining footing in the political machinery of democratic nations so as ultimately to prevail by force and dominate the country; it is a permanent conspiracy to establish communism by force, since it cannot triumph anywhere in any other way; in its constant nibbling at the free world, the Cold War

must ever avoid degenerating into a hot war, owing to the Soviet Union's precarious hold on the eastern half of Europe.

To improve this hold, which is its chief weakness, the Soviet Union must sap the faith and hope of the Eastern European peoples by proving to them that the West will not come to their rescue.

This general picture suggests a negative answer to the first question. The strategy of the Soviet Union cannot change. Its tactics have always been elastic and changeable; this in its turn will not change either.

2. Opportunities have by no means been lacking in the past for a western political offensive against communism. For instance, the murder of Hungary in 1956 could and should have ended in a defeat from which the Soviet Union might not



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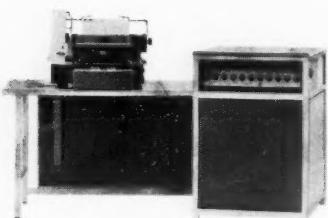
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Future of the cold war *continued*

have recovered, rather than the sur-render of the free world.

The future will certainly afford opportunities to force the Soviet Union to recede, but it is doubtful whether the free world will be able or willing to seize them.

There are a number of reasons for this skepticism. The first is that the free world has no concrete political image to oppose the political image offered by communism. The free world should proclaim a concrete ideal as its chief aim and raise it before the world. This could be none other than freedom.

Furthermore, the free world is divided. National interests prevent a coordinated world policy. It is hard to see how, in these circumstances, it could agree to taking the resolute, swift decisions needed in order to engage in a counter-offensive against the Soviet Union.

Add to this impressive catalog of obstacles the fact that the policy of the free world is prepared, discussed and carried out publicly while that of the Soviet Union is concocted behind closed doors.

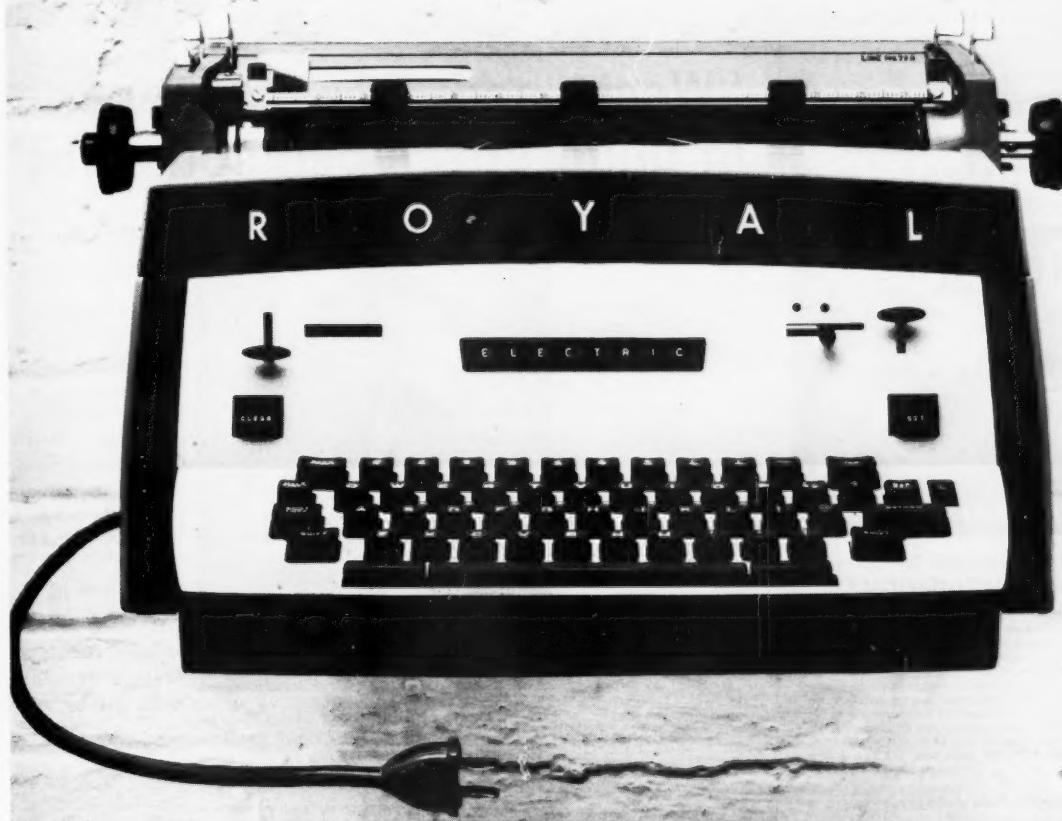
As an illustration let us take, for instance, Albania, a communist state out of direct touch with the Soviet bloc and—but for dubious Yugoslavia—surrounded by free nations. Yet the free world has never discussed or dared the liberation of this little country in spite of its formidable strategic and political importance and the fact that there are enough Albanians exiled in Italy to undertake the operation with every chance of success. Who would deny that the liberation of Albania could dramatically change the course of history?

3. Latin America would appear to be the most exposed continent both because of general conditions in its republics and the foothold secured by communism in Cuba. Within Latin America, two of the most exposed states are Santo Domingo and Venezuela. These two countries are in danger of being upset by communist putsches.

Africa is also exposed to communist activity, the more so as some of the new leaders have shown a deplorable lack of moral sense in rushing, as soon as free, to embrace the state that crushed the effort of Hungary to regain its freedom in 1956.

4. Too much is made of differences between Russia and Red China. The fact that the two big communist states are not in phase

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Future of the cold war *continued*

may present a number of advantages for the West. Moreover, the very bigness of China and the growth of its population must be counted perhaps rather as a source of weakness than as a source of strength. Nevertheless, it would be wise for the free world not to rely on any possible break between the two giants.

5. In my opinion, communist pressure will continue unless the Soviet citizen comes to realize that he has been taken in by his bosses of the Communist Party. This is not going to happen as a consequence of any amount of words, but only eventually, by virtue of some resounding deed.

A dramatic defeat of the Soviet Union in the world political field would be indispensable for any significant change in internal political conditions ever to take place in the Soviet Union.

Evolve it certainly will, as every nation does. But of its own substance; it is doubtful whether it will be able to shake off the mixture of nationalism and communism with which it is being intoxicated. The free world should not passively wait until the Soviet Union releases it from its nightmare. It must rise and destroy the nightmare by shaking the Soviet Union out of its own unhealthy dreams.

"West needs new strategy in underdeveloped countries"



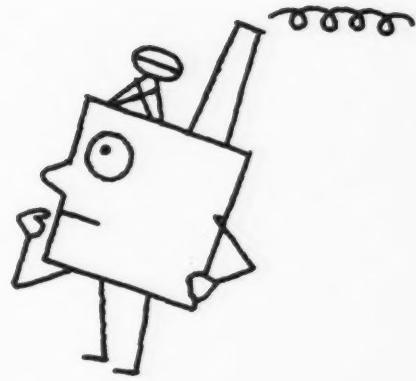
Dr. Max F. Millikan is director of the Center for International Studies at the Massachusetts Institute of Technology. An economist and former assistant director of the Central Intelligence Agency, he has been devoting his attention particularly to developments in the so called uncommitted countries.

1. I see no major change soon in the general trend and objectives of communist world policy. The Soviets will continue to seize all op-

portunities to extend their power and influence, to consolidate their control over their satellites, and to weaken both the military and

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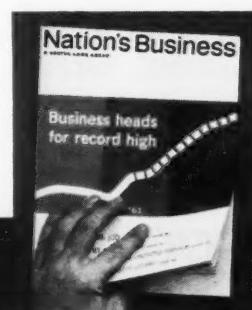
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Future of the cold war

continued

political power of NATO short of running what they regard as serious risks of provoking general nuclear war.

In Western Europe, where the expansion of local communist influence does not appear promising, they will concentrate on emphasizing, on one hand, communist military power and the dangers to Europe of a tough line and, on the other, their commitment to disarmament and their willingness to negotiate.

In the United Nations they will oppose any strengthening of real international collective machinery while seizing every opportunity to profess sympathy with the objectives of the emerging nations whose influence in the General Assembly increases each year.

2. In the underdeveloped world western policy will be ineffective if it focuses explicitly on countering Soviet moves.

We should press much more actively for an expansion of the role of the United Nations. Promising areas for this are in disarmament and inspection, the control of outer space, the observation and, in some cases, pacification of disturbed areas, and the promotion of economic development.

3. The trouble which the communists are creating in Laos and Vietnam involves the capacity to move people and supplies into unsettled regions from communist-controlled countries. Thus the two conditions for Laos-like troublemaking are, first, access across a communist border and, second, the presence of dissident local groups. The most probable spots for this kind of trouble are in Southeast Asia, though certain Middle Eastern countries would also be high on the list.

If troublemaking is more broadly defined, the communists may find attractive opportunities in Asia and Africa, where they will continue to attempt to gain the good will and support of existing governments by economic and military aid, by vigorous support of anticolonial measures and identification of the United States with colonial and imperialist interests, by disarmament propaganda, and in other ways. At the same time they will continue to exploit the inevitable stresses and

strains of the modernization process to demonstrate that progress is impossible without communism.

In Latin America, they will work with student groups, frustrated intellectuals, and underprivileged elements to promote the view that Castro-type revolution and a severing of ties with the United States are the only ways in which grievances can be redressed.

4. Since China is clearly not under Russian domination, she presents the Soviet regime with some of the same problems of managing an alliance that we face in the West. On the other hand, the Chinese position may make it more difficult for us to arrive at satisfactory negotiated agreements with the Russians, notably in the arms-control field. The struggle for control of the communist parties of the underdeveloped countries will continue. Nonetheless, the interests of the Soviet Union and the Chinese communists in maintaining the alliance are sufficiently strong so that we should certainly not look for any major break in the near future.

5. The Russians face over the next couple of decades an interesting problem of the uses to which they will put their rapidly growing industrial capacity. So far it has gone in two directions: 1, the expansion of their military establishment, and, 2, the further build-up of industrial capacity itself.

The standard of living has improved modestly in the past few years, but the major task of supplying the Russian people with housing, adequate transport, consumer durables, and a balanced diet remains ahead. There is some possibility that a new generation of bureaucrats will come to feel that absorbing themselves in this task will be more satisfying and productive than focusing their attention on an external expansion of power. This possibility is certainly a bad reason for relaxing our efforts to deal with the equally possible continuation of the present expansionist pattern.

In any case, we maximize the chances that future Russian leadership will turn increasingly inward by effectively blocking their prospects for external expansion. This calls for the deterrence or defeat of Soviet military ventures, strengthening the underdeveloped



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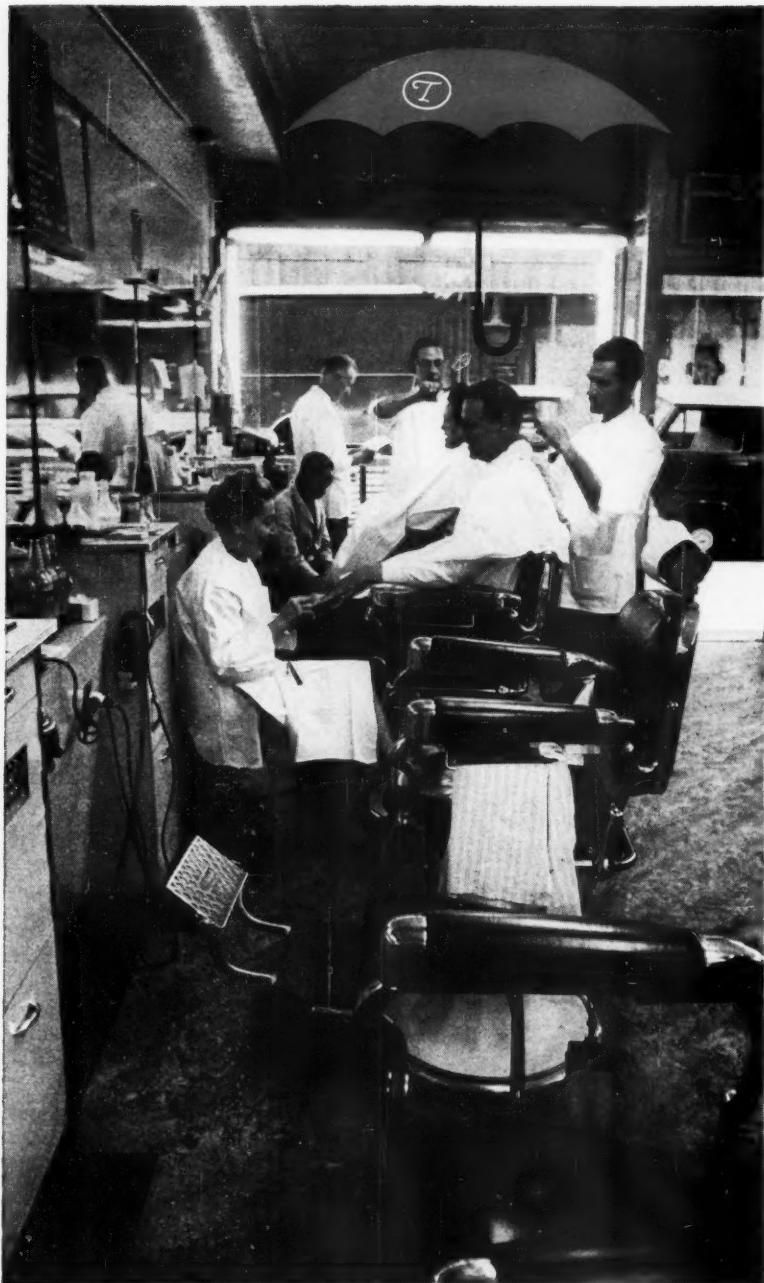
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Future of the cold war

continued

countries, and promotion of international security and disarmament arrangements. We should make clear to the new Soviet generation that this policy is in no way directed against legitimate Russian ambitions for internal growth and development.

Winning the neutrals

WILL AMERICA or the Soviet Union win the allegiance of the underdeveloped countries in the future phases of the Cold War?

NATION'S BUSINESS asked this and other questions of Dr. Max F. Millikan, one of the participants in the Cold War symposium (see page 68).

Dr. Millikan, director of the Center for International Studies at the Massachusetts Institute of Technology, has been concentrating his attention on the underdeveloped countries. He has traveled widely in them, and is uniquely qualified to discuss Cold War issues as they affect the vital group of nations caught between the major powers.

Here are his comments:

The underdeveloped countries are powerfully influenced by two considerations: first, most are more concerned with their own problems of economic, social, and political development than with Cold War issues. Some regimes which have sought alliance with us have felt themselves menaced less by intrusion from the Soviet Union than by the threat of internal opposition from progressives and reformers.

Second, the former colonial countries want to show their peoples their complete independence from their former masters or masters' friends. Some association with the Soviet bloc gives them an opportunity to underline this independence. We should understand this psychology and adjust to it whenever we can without prejudicing our vital interests.

I expect an increasing trend toward symbolic gestures of neutrality. Certain countries which have welcomed Soviet friendship have grown nervous when this threatens to be leading toward dependence of a different sort. Other countries, such as Brazil, whose leaders have come to feel that too heavy a reliance on American leadership weakens them politically,

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Future of the cold war

continued

have been moving toward relations with the Soviet bloc.

Two general themes seem crucial in our policy with respect to the underdeveloped countries:

First, we must demonstrate our interest in the positive ideals of political independence, self-determination, equality of opportunity, social justice, and economic development.

Second, we must combat, especially in Asia, the "wave of the future" psychology potentially so powerful there by demonstrating the capability of the West to protect the underdeveloped countries from open aggression or infiltration.

The needs of the underdeveloped countries are many, and our program in each must be fashioned in recognition of these needs. In some, especially Africa, the most critical bottleneck is the expansion of human resources. Our assistance in education, training, and building effective institutions is more important than anything else. In countries such as India the primary requirement is capital.

Some politicians in the underdeveloped world, frustrated by the difficulties of carrying out social and economic reform, find the effectiveness of the Soviet one-party state most appealing.

In spite of all this, many of the underdeveloped countries are committed to the principles we regard as important and which the Soviet system violates. If we concentrate on doing the things we regard as right and consistent with our principles and if the Soviets continue to follow their doctrine, the images of the U. S. and USSR will in time take care of themselves.

Role of business

Our aid and technical assistance programs have been doing a better job than is generally recognized. They can be enormously improved.

One key element in this improvement will be the willingness of a much larger proportion of our best people—administrators, scientists, technicians, educators—to participate in them.

American businessmen, the farm community, labor, religious and civil organizations, government employees must all redouble their efforts to strengthen the effectiveness of our efforts to set the emerging nations on the path to economic and political development.

END

BUSINESS ROLE

continued from page 33

policy toward such corporations? Essentially, as shown at congressional hearings, the policy is to treat each company as a competing enterprise. Government will choose among them on each contract on the basis, first, of the technological quality of the proposal they present; second, on the capability of the corporation—that is, its staff, plant and finances—and third, the cost.

But such a policy is impractical and not followed. Government does, in fact, try to keep its suppliers going. Reality prevents government from treating these companies literally as private competing suppliers.

Related to the problem of the captive corporation is the captive community. Many major industrial areas, and many smaller communities as well, are dependent on the continuance of such contracts for resident companies to keep their workers at work. Rumors that a procurement program on which a local plant depends is to be cut back or canceled sweep through such communities like the threat of a hurricane.

Fourth, the nonprofit organization has been born. The nonprofit organization is both the child and the servant of government.

Their supporters claim nonprofit agencies have these advantages:

First, unhampered by limits on Civil Service salaries, these companies can hire the highly skilled engineers and scientists whom government finds it increasingly difficult to attract and hold.

Second, most of these agencies have proved their ability to provide a more suitable environment for the objective, analytical appraisal of government planning and operations than can the government itself.

Third, they provide a more suitable climate for effective research than can business enterprises concerned with production and profit.

In addition, government considers that certain functions can be entrusted to these organizations which cannot be entrusted to profit-making enterprises.

On this point the Air Force set a major precedent when it discontinued its contract with Space Technology Laboratories, Inc., and created the nonprofit Aerospace Corporation to manage its missile program. A significant step for the government of a free enterprise society.

Critics of the nonprofit organiza-

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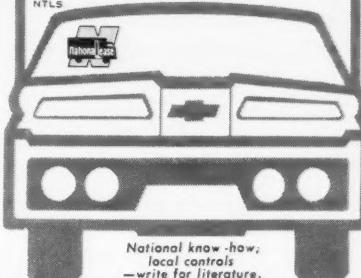
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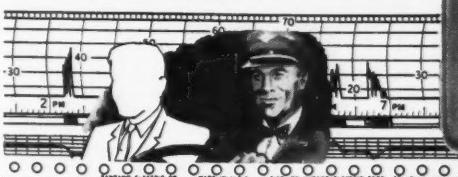


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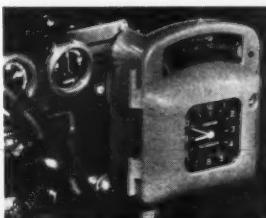
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BUSINESS ROLE

continued

tions claim that they are primarily a device to enable a government department to get around civil service salaries and rules and that their costs are excessive. In his directive for the contracting study, President Kennedy noted recent criticism along these lines.

More basic questions were raised by President Eisenhower in his farewell radio-TV address:

1. Is there an interlocking alliance, perhaps an unwitting one, between military, industrial, and political interests in which the national interest could be subordinated?

2. Is there real danger of excessive influence by the gigantic military-industrial complex?

Secretary of Defense McNamara answers this way: "As one weapons system is phased out and another developed, defense business moves not only from one contractor to another, but from industry to industry and from state to state." This diversification offers some protection against the concentration of influence. However, it is also true that each move creates combinations which include the military service that seeks to continue a particular weapons system, the contractor who manages the system being cut back or discontinued, and the congressman in whose district employment will be affected.

Changing government role

When something like a fifth of our gross national product represents government expenditures, the problem becomes how to ensure that the government is capable of the vast contracting job that the Cold War and the rapid march of technology force upon it and will utilize to the fullest the private business firms and educational institutions for the roles in which they are needed and best suited.

At present, various government agencies follow widely varying practices in determining what work will be done by their own employees and what will be done by outside contractors.

The Air Force and National Aeronautics and Space Administration, for example, tend to rely heavily on contractors to conceive and develop programs and weapons. The Army, Navy, and Federal Aviation Agency tend to turn to contractors only after programs have been conceived, weapons have been designed, and, as they say, "only after

much of the guesswork has been eliminated."

Which approach is best will be one of the subjects of the current studies. Some authorities contend that basic or fundamental research should be done by the universities and that applied research, development and production should generally be contracted to business firms.

When government contracts out extensively, it requires abler personnel than ever before. To identify or to agree upon the research that should be supported, to conceive the projects and explorations that should be undertaken, to negotiate complex contracts involving millions of dollars, and to frame the policies that will guide what work is to be done and how it is to be done, government needs highly skilled scientists, negotiators, lawyers, and administrators.

Government will inevitably con-

tinue to contract out much of the research, development and production it requires. The vast size and the urgency of its needs for the best scientific, engineering, and production brains dictate that. Hence, it is essential that a long, hard look be taken at government policies. Federal procedures need to be updated.

The freedom of contractors to go about the tasks for which they assume responsibility must be increased.

Contract approaches and procedures must be improved. Dotting i's and crossing t's in accordance with moss-covered government regulations or complying with the dictates of a second-rate bureaucrat have no place in scientific and medical research, the development of new relationships in space, the building of a university in Karachi, or indeed in any modern government activity.—JOHN J. CORSON

FEDERAL SPENDING

continued from page 37

year into a special trust fund; benefits would boost social security trust fund spending by about \$1 billion the first year and about \$1.9 billion over the long pull.

In another move, the Administration proposes a new permanent program of federal unemployment compensation benefits to supplement state benefits for workers long out of jobs. In the past two recessions extra federal benefits were provided in temporary programs and financed out of the regular budget. This time, for the permanent program, the Administration wants tax increases that could swell the unemployment trust fund's income by some \$550 million to \$600 million more a year over several years. Presumably a similar amount would be paid out. An additional increase in the fund's activity would result from a proposed extension of coverage to small firms not now covered. Officials haven't come up as yet with figures on how much this would cost.

Funds affect economy

Because the trust funds may happen to show surpluses at a time when the federal budget is showing a deficit, or vice versa, they can frequently alter the impact of the government's activity on the economy. It appears, in fact, that they can frustrate attempts by the government to stimulate the economy through deficit spending.

For example, in fiscal 1951, when the regular budget was showing a

\$3.5 billion surplus, the cash budget, which reflects the trust funds, was showing one of \$7.6 billion. In fiscal 1952, when the regular budget was \$4 billion in the red, the cash surplus was \$54 million.

During fiscal 1961, when the Kennedy Administration tried to use deficit financing to stimulate the sluggish economy, the regular budget showed a \$3.9 billion deficit. But the cash budget was only a little more than \$2 billion in the red. For this year the Administration now expects a \$5.3 billion deficit in the regular budget; just where the cash deficit will stand is anybody's guess at the moment.

While the trust funds are growing lustily, the regular budget will be rolling along nicely, too. Treasury Secretary C. Douglas Dillon recently said that revenues in the fiscal year ending June 30, 1963, would "approximate \$90 billion" and that this would cover all spending needs "with something left over." Most government officials concede privately that they expect that "something left over" to be mighty small. To see why, one has only to view the current year's budget of \$88 billion and the unlikely prospect that the budget will remain at that level for fiscal 1963.

Take the defense program. The Eisenhower Administration put defense spending at \$41.5 billion for the fiscal year ending last June 30. The Kennedy Administration re-

(continued on page 81)

FEDERAL SPENDING

continued

vised this upward to \$42.5 billion for the current year. Mr. Kennedy originally set defense spending at \$43.8 billion. Under the spur of the Berlin crisis and in response to a presidential plea for funds to step up the defense program, Congress voted a defense appropriation bill of \$46.4 billion, not including civil defense.

Few officials expect defense spending to do anything but continue to rise if the not-so-cold war maintains its present temperature.

Entirely aside from maintaining or improving our actual military strength, consider what will happen to one important nonweapon defense item—retirement pay for military personnel. In the year just ended, \$789 million went into such retirement pay. This year it will be \$925 million. Next year it will go well past \$1 billion. Over the following few years it will climb steadily toward \$2 billion.

Foreign aid, both military and economic, was \$4 billion last fiscal year, is set at \$4.8 billion this fiscal year, and will certainly climb another billion in later years.

The space program will clearly increase in the coming years. Tabbed at \$1.8 billion for this year, compared to \$770 million last year, it will hit the \$5 billion level in three or four years.

Resumption of nuclear testing could increase outlays in that field by \$200 million to \$1 billion. A step-up in civil defense is reflected in congressional approval of \$206 million for that purpose, more than double last year's amount.

Regular budget prospects

One high administration official has said he expects nondefense spending "inevitably" to rise about \$1 billion to \$2 billion a year.

Congress has ordered an increase from \$50 million to \$100 million by fiscal 1964 in federal grants for local plants to combat water pollution. A big housing bill enacted by this Congress will hike spending only slightly this year, but will bring big increases in future years. Big expenditures on federal education loans and grants are in the cards, too.

Congress this year authorized a \$50 million loan program to help cities improve their mass transportation systems. This was small as new programs go, but it was recognized as a token payment on a more

(continued on page 91)

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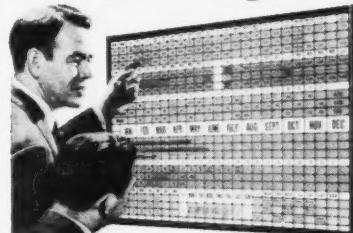


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PERSONAL OUTLOOK

Dividends head for new peak

You can expect larger common stock dividends this year and next.

But don't let current stock market trends mislead you.

Some investors are pouring money into the market as if a dividend boom were just around the corner.

You hear this comment from nearly any investment analyst you talk with.

Is such a dividend boom ahead?

Probably not, although impressive increases are shaping up for many companies.

For your personal planning:

An over-all major advance is expected for corporate profits in the coming year.

This leads to speculation on the part of many investors that dividend payments also will soar.

Not necessarily so.

Profits often fluctuate widely. Dividends don't.

If you are interested in over-all national trends, look for business profits to pick up at least 25 per cent next year.

But keep in mind that tax collections chop corporate profits in half.

All U. S. industries together will have an estimated after-tax profit of \$25 billion to divide four ways:

1. Pay on company debt.
2. Invest in plant modernization and expansion for the future.
3. Pay owners of company stock for the use of their money.
4. Add to financial reserves.

Current outlook for dividend payments:

There's a good chance dividends will reach about \$14.7 billion this year. That compares with \$14.1 billion last year.

As viewed now, the prospect for next year is that dividend payments will rise to about \$15.5 billion.

Not all industries will share alike in these national trends. Enough will to boost averages. But stocks of those firms which don't could continue to be somewhat depressed despite over-all trends.

This is a major difference for the future. In booms past even laggard firms often were carried along in the main stream. For years ahead analysts believe the separation between poor and good investments will widen.

For this reason, now is a time to select your personal investments with special care. It will pay you to look thoughtfully and analytically at earnings potential of industries you invest in, as well as particular stocks which appeal to you.

Studying shareholder reports of major firms in industries you like will provide you with much information you'll need in tailoring investment opportunities to your particular needs and investment goals.

You can get shareholder reports by writing to firms you want to know more about.

Giving your boat away?

Planning to take your boat to Florida this winter—or will you give it away?

Some businessmen who charge off operation of yachts as business expense are getting rid of them. Example: Executive gives his boat

PERSONAL OUTLOOK

to a university for oceanographic studies. Why? For one thing he fears tax officials will clamp down on operating cost as a deductible expense. If that happens, the boat will shift from a tax asset to a liability.

Are many businessmen giving boats away?

Answer is no. Tax officials know some are but don't think practice is widespread.

Fear is unfounded, federal official tells Nation's Business. If operation of your boat meets the test there's no need to worry.

Key test: Is use of your boat an ordinary procedure in pursuit of business? Is it necessary? Is expense reasonable?

These are questions you'll be asked if tax authorities call on you.

If your son sometimes uses the company car better think again about letting him do so.

Tax man says: "We don't believe taxpayers should foot the bill for Junior's use of the company car when it has nothing to do with company business."

Junior can use the car if that's okay with your firm but you can't deduct that expense from your taxable income.

Checkers are looking for abuses of expense-account deductions. They expect to find some. Use of automatic data processing equipment will help them speed this search.

One expected result: Tax officials think more businessmen, particularly small business operators, will be questioned next year.

Cost of borrowing

Don't put off buying or building the new home you want because you think money will cost less.

It won't—not any time soon. Most likely is the prospect that the price of borrowing money will go up, not down.

This is the expectation in Washington despite some government actions aimed at lowering interest costs.

Rates on the whole are expected to creep higher in the months ahead, going up somewhat faster within a year from now.

But remember: It pays to shop around for cheaper money.

New status symbol

If you've been picked—in one large firm—to visit Africa on company business you're thought of by fellow executives as one of the select group being watched by top management for future advancement.

"It's a new kind of status symbol," explains a vice president who already has been to Africa for his firm.

"We used to think this way about our men who made junkets to Europe for the company," he says. "Now the lucky dogs are those who are chosen for African business trips."

Looking beyond immediate company needs, you often can anticipate how you can be more useful to your firm in years ahead.

Next step is to begin preparing yourself in ways that will widen your future personal advancement opportunities.

Example: In above-mentioned company it was Europe first, then Africa. What's next? Probably Latin America offers the best chance to expand the firm's world business.

So this vice president is improving his personal outlook by taking Spanish lessons and reading books on Latin countries.

FEDERAL SPENDING

continued from page 81

ambitious program next year. Mass transportation assistance also was made available in connection with urban planning under the new housing act. Federal aid to preserve open space around cities will almost certainly become a major budget item in the near future.

The Kennedy Administration has ordered the start of a number of new dams and other water projects—items which cost little the first year but which rapidly become expensive as construction advances. New job training programs, a youth conservation corps, a trade readjustment program for industries hit by imports, aid to depressed areas all promise to increase in cost as they mature. Finally, recent budget deficits, increasing the size of the public debt, will boost the interest costs on the debt over the next year or two.

The Kennedy Administration is trying to get a picture, not for publication, of just where the budget is trending. All agencies have been asked to submit estimates of what money they will need over the next five years.

Late in the Eisenhower Administration Budget Director Maurice Stans tried the same thing on a 10-year basis. His results were published on Inauguration Day and got little publicity, but they are worth examining.

His lowest projection, which would permit no new spending programs and require some cutback on existing programs, showed a spending level of \$77.4 billion by 1965 and \$83.9 billion by 1970. A medium projection, considered the most likely at the time it was produced, anticipated \$88.8 billion by 1965 and \$97.4 billion by 1970. The projection was based on an assumption of no increases for major national security programs. It is already hopeless because security items have been markedly increased. Mr. Stans' highest projection was \$109.2 billion by 1965 and \$122.6 billion by 1970. This estimate was based on a considerable expansion in spending programs.

If the early months of the Kennedy Administration can be taken as an indication, Mr. Stans' high projection is the one most likely to come close to the mark. And, it should always be remembered, this projection doesn't even take into account the trust fund device.

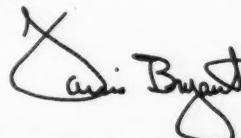
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UNION POWER FACES NEW CHALLENGE

continued from page 39

Public demand grows for legislation to deal with labor's control over markets

in answering a question during his election campaign a year ago.

Pointing out that the antitrust laws may be applied to business monopolies which fix prices and divide markets, and to labor unions when they join with businessmen in restraining trade and commerce, he said:

"Even if labor unions should, acting alone, impose this kind of restriction upon competition in the sale of goods, their activities would seem to be against the policies of the antitrust laws."

Legislation to deal with union attempts to control markets was recommended in 1955 by the Attorney General's National Committee to Study the Antitrust Laws. It attacked such practices as fixing the kind or amount of products to be

used, produced or sold; their price; the geographical area in which they might be sold, or the number of firms which might engage in their production or distribution. Nothing came of the recommendation.

Solicitor General Archibald Cox, labor adviser to Mr. Kennedy before his election, made a similar recommendation in 1955. Writing in the University of Pennsylvania *Law Review*, he approved legislative action against restrictive trade practices of unions, but suggested that the law spell out which practices would be unlawful and which would be proper.

He favored outlawing these union practices which already are unlawful for businessmen:

Fixing prices, limiting production, allocating territories or sales among

employers, and imposing other like restraints on competition among employers in the product market.

Unions and employees would still be free to:

Engage in strikes, boycotts or other concerted activities for the purposes of organization and collective bargaining or the negotiation and administration of agreements relating to wages and other compensation of employees, their hours and working conditions, or their tenure and security of employment.

Goldberg disagrees

Secretary of Labor Arthur J. Goldberg, former union attorney, has been unalterably opposed to putting unions under antitrust legislation.

"Those who make the labor monopoly charge are not really concerned with competition or its negative counterpart, monopoly," Mr. Goldberg said in 1958. "Their real goal is the weakening of unions and especially those unions which they believe are too strong."

He admitted that there are instances in which a union is stronger than the employer, but said, "This

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is usually countered by the development of employer associations."

Mr. Goldberg claimed that unions do not exercise economic power too great for the public good and that the labor monopoly charge "is false from every viewpoint."

Senator McClellan, however, sees a serious threat in the alliance that truck union president Hoffa is trying to make with unions in the shipping, railroad and airline industries.

As chairman of the Senate Rackets Investigation Committee, Senator McClellan accused Mr. Hoffa of corrupt union leadership.

A law is needed "to place labor unions in the transportation industry under some restrictions and controls comparable to those that our antitrust laws now place on business," the senator says.

"The threat of a proposed amalgamation or the forming of an association of all of the transportation unions under one leadership with power to call a nationwide strike and paralyze the commerce and economy of this country poses an internal danger of alarming proportions—one that actually challenges the supremacy of government itself.

"We need to meet that challenge squarely with laws to curb and restrain the tremendous power that such a combination of forces would create."

Mr. Hoffa has made little progress toward the proposed alliance, but he is insisting that most of the big trucking labor contracts expire on the same date, Jan. 31, 1964. This would enable him to call a nationwide truck strike, although he asserts he would never do it. Still he would hold the power to bring all trucking to a complete halt.

Another labor problem will be in the Kennedy Administration's and the legislators' minds when they debate new labor legislation. It is the threat of another industry-wide steel strike next summer. Major union contracts signed after a 116-day strike in 1959 expire June 30.

The importance of the union monopoly issue has been recognized by the Speech Association of America which, each school year, selects the topic for intercollegiate debates. This year it chose: "Resolved: That labor organizations should be under the jurisdiction of antitrust legislation."

Public opinion polls have also revealed general concern over the growth of union power.

A national poll by Opinion Research Corporation showed 62 per cent of the general public and 57 per cent of union members favoring laws to "control monopolies in labor unions" just as antitrust laws control monopolies in business.

A poll of his district in New York City by Rep. Alfred E. Santangelo surprised the union-backed Democrat. It showed 80 per cent of his constituents, mostly union-minded working people, "believe that labor unions should be subject to antitrust laws." This congressional district, New York's 18th, was formerly represented in Congress by the late Vito Marcantonio, an American Labor Party member.

In Los Angeles, public concern over union power is even greater, according to a poll of his district conducted by the conservative Rep. Edgar W. Hiestand, Republican, who has himself introduced several bills to put unions under the anti-trust laws. He found that 90 per cent of his constituents agreed with him.

END



UNDERSTAND WHAT YOU HEAR

Following these five suggestions
will improve your listening skill

A RECENT SURVEY of some 100 firms attempted to determine how much of what top management has to say actually is understood. The results:

- Men at the vice-presidential level understand about two thirds of what they hear from the top.
- Men at the general supervisor level get 56 per cent of it.
- Men at the plant manager level get 40 per cent.
- Men at the foreman level get 30 per cent.
- Men on the production line get 20 per cent.

The ability to understand what his superiors tell him sets a man apart.

This is true not only in business but in all fields of human endeavor. In recent years psychologists, educators and management consultants have devoted much time to the problem of improving that ability. Here are five specific recommendations that have resulted from their study:

1. Rephrase your understanding in your own words and, whenever possible, check with the source.

An intelligent manager soon learns to expect to be misunderstood. No matter how carefully you phrase your orders, memoranda or even your chitchat, many of your subordinates are bound to misunderstand at least some of the time. One of the most effective ways to minimize that misunderstanding is to persuade your subordinates to give you in their own words their versions of anything important you tell them.

This sounds simple, but it is far from easy to put into practice. Many men look on such a request as an insult to their intelligence. Their grudging compliance limits the procedure's effectiveness.

The man who is able to conquer such false pride can quickly show his worth. The head of a task force set up by one large company to oversee the launching of a new product describes a case in point:

"My assignment was to try to coordinate everything from raw material procurement to suggestions for retail store window displays and to integrate the whole project into our other operations. They gave me some of the best men from several departments and pretty strong authority to cut any red tape that might get in the way.

"I suppose that combination of authority and men with reputations explains what happened. Anyway, from the start I had trouble getting them to read me right. If I said I wanted something done in two days,

found it wasn't and asked why, the man I asked would say, like as not, that he thought I had given him two weeks. It was as bad as that.

"I was able to stop the worst trouble by insisting that each of them give me in his own words his idea of anything vital I told him, but it was obvious that this really galled most of them.

"The cure might have turned out as bad as the disease if it hadn't been for one of the more junior executives in the group. For him, checking to make sure he understood what he was told seemed to be an ingrained habit. He quietly and quickly rephrased what he took to be my main points. The others couldn't help noticing how much more efficiently he was functioning under the pressure we all felt. I don't mean that he converted them all by his example, but he certainly helped several to see the point.

"They see it even more clearly now. He is one of the fastest rising men in the company, and that rephrasing habit has a lot to do with it."

A personnel management expert has described how he came to understand the value of this habit in the course of seeking a simple way of determining which



Listening sets man apart

of a group of men would be best at quickly comprehending complex information. In his early days he developed a procedure in which a superior telephoned a complicated message to each of the men to be evaluated. The next day each of the men was asked to repeat the essence of the message.

"Now and then," the personnel expert reports, "one of the men who telephoned a test message would report that the recipient insisted on repeating the gist of it and asking whether he had it straight. The man who did the telephoning would want to know whether that invalidated the test. When I discovered that the person who insisted on such repetition nearly always outscored the others, I wondered about that for a while, too."

"I'm happy to say I was smart enough to get the point fairly quickly. Obviously, the man to look for is the one who rephrases the gist of what he's told to see whether he has it straight."

2. When you disagree with an order but must accept it, take extra care to get it right.

Often we are so intense about getting across our own ideas that merely giving the other fellow his turn to talk seems a big concession. If he happens to say something that appears to be wrong, it is asking real effort to expect us not to show him his error.

Most of us are willing to make that effort when the boss makes the apparent error and open disagreement is inadvisable. But even then the competitive urge can do strange things to our understanding of the points disagreed upon.

A typical situation is one in which the head of a firm or department assembles several subordinates and seeks their recommendations on a course of action in which they are to participate. A vice president of a large retailing firm describes a case growing out of such a situation.

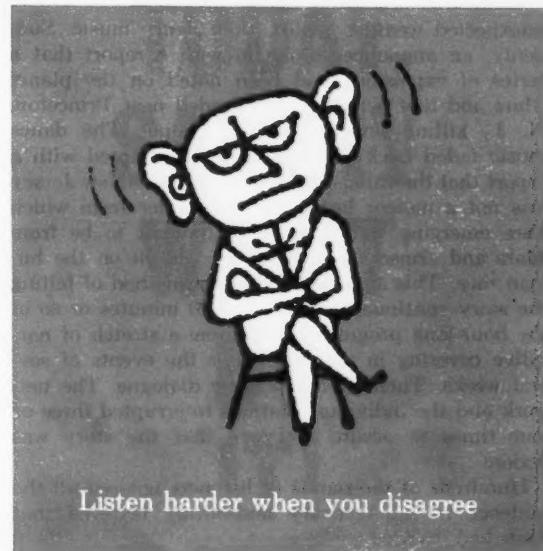
He called a meeting to consider methods of handling a new line of goods. One point was the personnel manager's proposal that sales people be asked for suggestions on handling the new line. The manager of one of the firm's suburban stores opposed this as a waste of time. The vice president gave both men time to state their cases, then ruled in favor of seeking the suggestions, saying that he thought the effort would be "worth the trouble."

A few weeks later he learned that the suburban store manager had made no effort to seek suggestions from his clerks and called him on the carpet.

"But Harry," the manager insisted quite sincerely, "you said we should do it only if we thought it was worth the trouble."

One way to intensify your awareness of the tendency to win arguments in the privacy of our unconscious minds, no matter what happens in the open, is deliberately to court disagreement. For instance, have a friend read to you from a speech by a politician with a viewpoint quite different from yours. When you hear a statement with which you strongly disagree, write down the exact words. If you can do this the first time, you are a better listener than most.

Once you get down the exact words of a statement with which you strongly disagree, consider whether you may be giving some word or phrase a meaning different from that the speaker intended. Also, con-



Listen harder when you disagree

sider whether the speaker may have more or better information than you on some point in the statement.

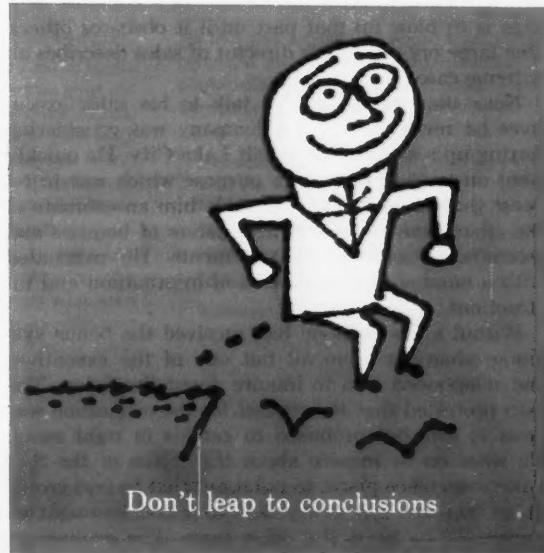
This can be an extremely difficult undertaking. But the more difficult you find it, the more clearly it should warn you of the danger of misunderstanding colleagues and superiors with whom you disagree.

3. If you find something you are told exciting, watch out for errors of exaggeration in your understanding of it.

On the evening of Sunday, Oct. 30, 1938, several million Americans heard from their radios the announcement:

"The Columbia Broadcasting System and its affiliated stations present Orson Welles and the Mercury Theater of the Air in 'The War of the Worlds' by H. G. Wells."

A few moments of silence followed, then a quite



Don't leap to conclusions

UNDERSTAND WHAT YOU HEAR *continued*

unexpected weather report, then dance music. Suddenly, an announcer broke in with a report that a series of explosions had been noted on the planet Mars and that a meteor had landed near Princeton, N. J., killing several hundred people. The dance music faded back in, only to be interrupted with a report that the thing which had landed in New Jersey was not a meteor but a metal cylinder from which were emerging weird creatures thought to be from Mars and armed for a death-ray assault on the human race. This simulated newscast method of telling the story continued for the first 20 minutes or so of the hour-long program. Then came a stretch of narrative covering in a few minutes the events of several weeks. Then came dramatic dialogue. The network and the individual stations interrupted three or four times to assure everyone that the story was fiction.

Hundreds of thousands of listeners ignored all the evidence to the contrary and firmly believed that Mars had invaded us.

The explanation was that people got excited and wanted to stay that way. Everybody likes a little excitement now and then. When you get a bit of evidence indicating that excitement may be in order, the temptation to make that evidence suffice can be strong.

In business, the resultant dulling of the understanding is costly. One executive was told that his firm was seeking a big new contract which, if it came through, would mean reorganization and enlargement of the department he headed. His superiors emphasized, however, that the contract was far from landed.

Because the department's affairs had been running smoothly and rather dully for some time, he was greatly intrigued by the prospect of having to make big changes. He began working out a few of them on paper and discussing them with his assistants. He carried on these discussions in terms not of "if" the contract was landed but of "when" it was. When it fell through, his department's affairs were no longer running anything like smoothly.

Another common form of exaggerating as a result of heightened interest in one part of a complex message is to blow up that part until it obscures others. One large organization's director of sales describes an extreme case:

Near the beginning of a talk to his sales executives he revealed that the company was considering setting up a sales office in Salt Lake City. He quickly went on to the talk's main purpose which was to request that each executive provide him an estimate of the effectiveness of the firm's system of bonuses and recommendations for improvements. He concluded with a number of minor items of information and instructions.

Within a few days he had received the bonus system evaluations from all but one of the executives and telephoned him to inquire about the delay. The man protested that the request for the evaluation was news to him but promised to get his in right away. He went on to inquire about the status of the Salt Lake sales office plans, to point out that he had grown up in that city and to say that he hoped he might be considered to head the office there. His excitement

over this had made him totally deaf to the main point of his boss's talk.

4. If you find something you are told boring, watch out for errors of transposition.

Excitement's opposite, boredom, also can blot out parts of a message, but is more dangerous when it disarranges them. If you realize that your attention has wandered so far that you have missed something altogether, you will seek a way to find out what you have missed. But when you fight hard to stay attentive and keep bringing your wandering thoughts back to the mark, the danger is that you may get the main points and feel sure you have them straight, yet actually have them quite wrong.

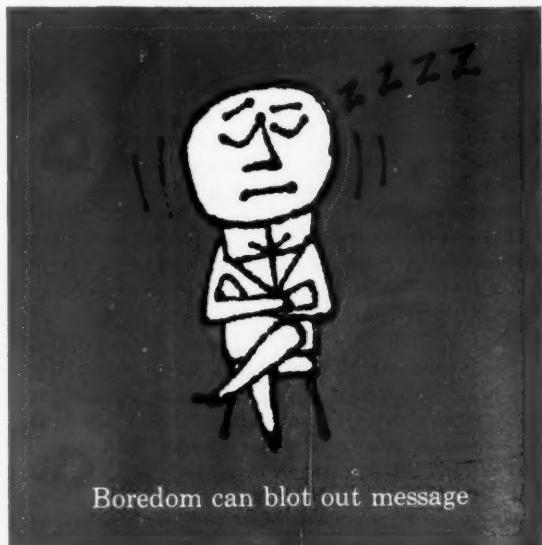
One junior executive nearly lost his job this way. He and three fellow juniors in the company's home office underwent training to prepare them to help managers of branch plants with local community relations projects. When they had completed their training, the four were assembled to hear from the community relations director a recapitulation of the main points along with their final instructions.

"I was tired," the man remembers, "and nearly everything the old boy had to say was old stuff by then. Also, I was worried about whether my car was in condition for the trip. Every once in a while I would notice he was saying something that sounded new or important, and I would tune back in on him.

"I didn't miss anything altogether. I probably would have been better off if I had. One thing he gave us was the sequence he wanted us to follow in cultivating local community leaders and entertaining them at the plants—first the local paper editors, then the school principals and so on. I was just alert enough to tell it was something he was hipped on.

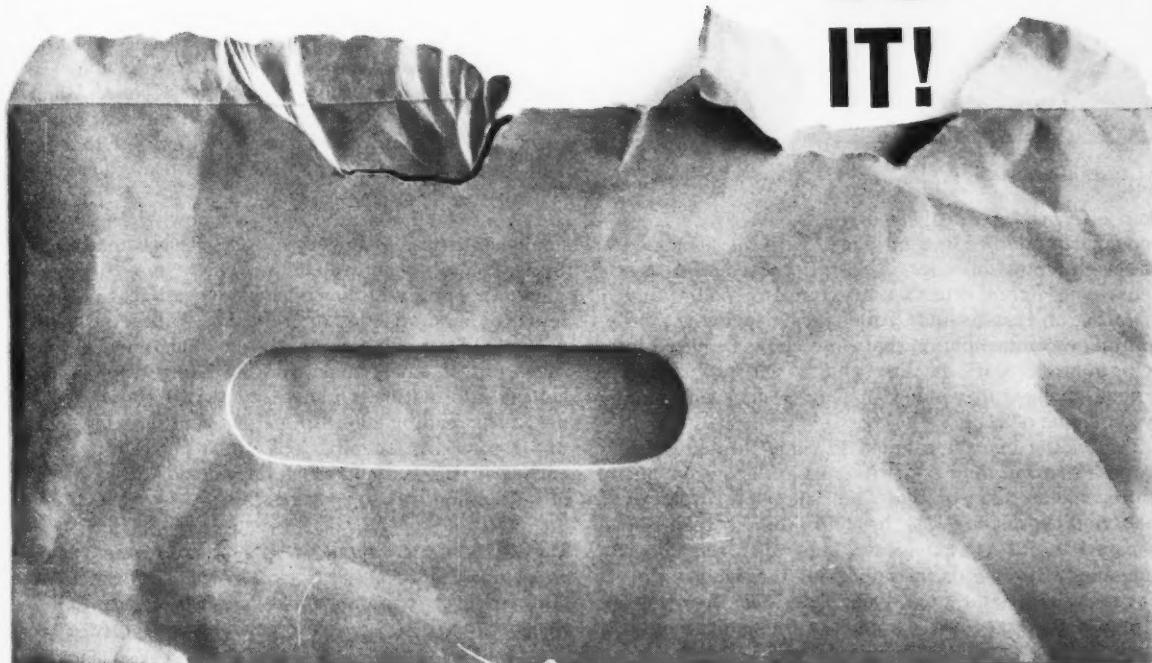
"Trouble was, I was so loftily bored that I got it all wrong. When he saw from my reports that I was following a sequence all my own and seemed to be deliberately flouting his orders, it was touch-and-go for a while with my job."

Besides disordering the items in a sequence, bore-



Boredom can blot out message

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dom often can cause the moving of a negative from one spot to another in a message. Once the managers of several shops of a retail chain were called to the home office for a refresher on company policy and updating on changes in it. Among the new items were a strong recommendation that sales clerks be asked to help improve store layouts and a flat prohibition against changes in window display designs provided by the home office.

Two of the managers failed to come through with proposals from their subordinates on store layout improvements. One of these sent in photographs of the window displays as he had altered them in response to his clerks' ideas. The other sent in a collection of proposals for improving the window displays. Both, it later turned out, had told their subordinates to forget any complaints they might have about store layouts.

5. Concentrate on the unfamiliar items in any message.

A common cause of boredom is the feeling that you are being told something you already know. One good way both to avoid the errors of transposition and to increase your receptivity to all parts of a message is to take that feeling of familiarity as a signal that it is time to seek the unfamiliar. At the first temptation to say to yourself, "Well, I've heard all that a hundred times before," stop—look—and listen some more.

Listen specifically to determine whether there may not be at least one new item or new juxtaposition of old items. At the least there may be some difference in phrasing or in tone of voice to give you a lead to something new. The fact that what is new is buried under the overfamiliar may provide competitive advantage to those who do notice it.

The general counsel of one business firm describes how he discovered this principle:

"In my early days in college I was appalled to find that most of the lecture courses seemed to consist only of some professor's repeating almost word

for word what I already had read in the text book. At first I was indignant, but then I decided that a lecture hall was as good a place as any to catch up on my sleep. I felt quite smug and sophisticated about it—until I got my grades for the first exams.

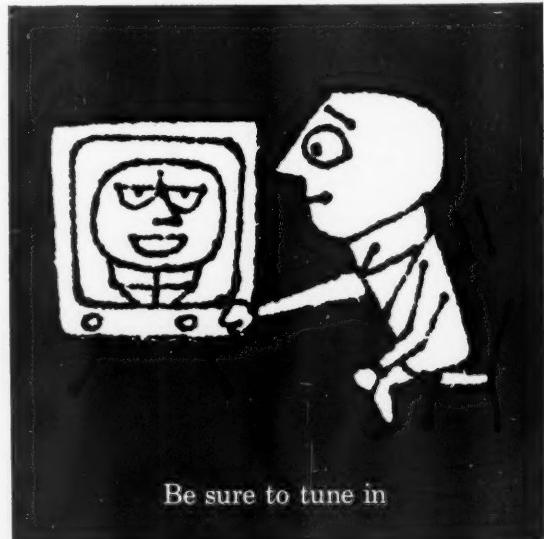
"That was one of the most salutary shocks I ever experienced. It was obvious that there was more to the lectures than I had realized. I started listening again and discovered that although the old boys were using a great deal of material straight from the texts, they also were adding to it or commenting on it at some crucial points. I found listening for those points smart tactics in terms of its effect on my grades. It also gave me a much better grasp of the material from the texts—which, of course, was exactly what the professors were trying to do.

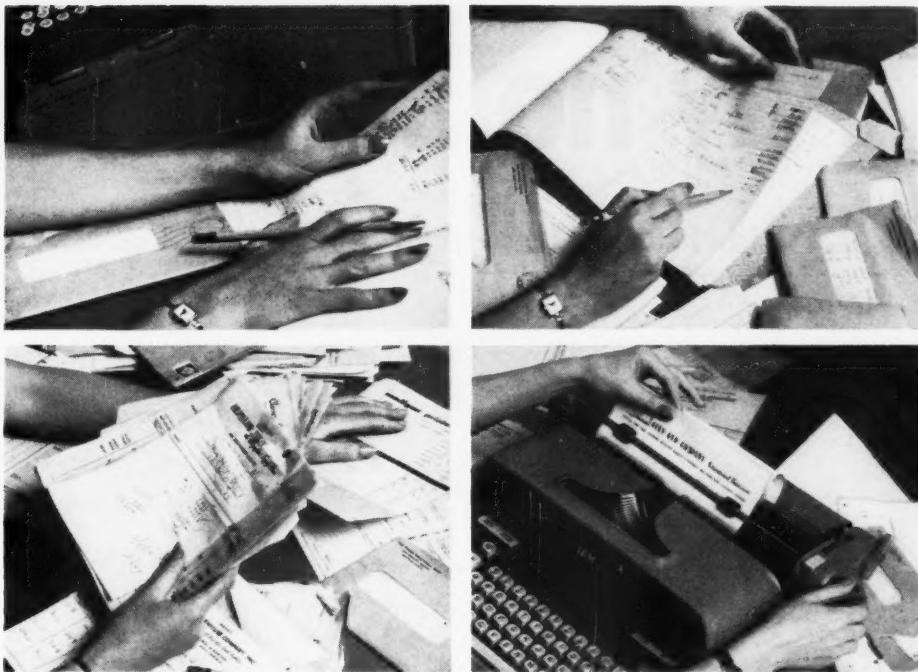
"Ever since then I have tried to make it a rule to listen with special care whenever someone seems to be telling me something I think I already know. It has been a highly profitable practice. I have found that even the windiest bore is certain to know something I don't but would like to know and that he will eventually reveal it to me if I am alert enough to spot it."

It cannot be guaranteed that following these recommendations will make you a perfect listener, but the value to you of any improvement may be enormous. In a study of how business executives and professional men spend their time Dr. Paul T. Rankin of Ohio State University found that they devote seven out of ten of their working hours to giving or getting information. Of this time, writing took up 11 per cent; reading took up 15 per cent; talking took up 31 per cent; listening took up 43 per cent.

Clearly, the last and much neglected skill is worthy of cultivation.—ROBERT FROMAN

REPRINTS of "*Understand What You Hear*" may be obtained for 10 cents a copy or \$7.00 per 100 postpaid from *Nation's Business*, 1615 H St., N.W., Washington 6, D.C. Please enclose remittance.





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THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

SPECIAL LETTER

NATION'S BUSINESS EDITORS REPORT ON: Attack on profits

Look for an increasing attack on profits. Here's why:

Profits are rising again.

Inflation fears are growing.

Unions want to share profits.

* * *

Profits of corporations turned upward about 20 per cent during second quarter after plunging from \$48.1 billion to \$39.6 billion annual rate over previous five quarters.

Forecast: They'll rise another 25 per cent over next year and a half.

Increased volume—not higher margins—will account for most of rise.

Actually, profit margins may drop.

* * *

Inflation threat puts spotlight on prices and profits, while rising wage costs draw less attention.

Note Senate investigation of drug prices, government pressures on steel and automobile industries to hold their prices down. Result: Profit squeeze.

* * *

More pressures on prices and profits will also come from union demands for profit-sharing on top of higher wages and added fringe benefits.

Wages will trend upward relentlessly under stimulus of deferred increases already promised to about four million workers under long-term labor contracts and cost-of-living escalators.

Fringe benefit costs are rising in two ways: 1, from the cost of added and enlarged benefits; 2, from the increased share of pension and health insurance costs borne by employers.

* * *

Tax loss, as profits are passed along to employees, will build more inflation pressure. Cor-

porations pay 52 per cent federal income tax, individuals less than 25 per cent, on average. Last year corporations paid more than \$22.3 billion in taxes. If all profits had been passed along to workers, government take would have been less than half.

* * *

Union voice in profit-sharing—if American Motors plan becomes precedent—poses greatest threat to management and profit system.

It opens door to greater union participation in management decisions on prices, products, research, expansion, subcontracting—and anything else that affects profits.

Reduced opportunity for profits would curb investor interest, tighten available investment money.

* * *

Little known fact about profit-sharing plans: Almost all were voluntarily installed and completely controlled by management. They have not been bargaining issues.

Of approximately 27,000 profit-sharing plans approved for tax purposes by Internal Revenue, the Council of Profit-Sharing Industries knows of only five or six in which unions have a voice.

* * *

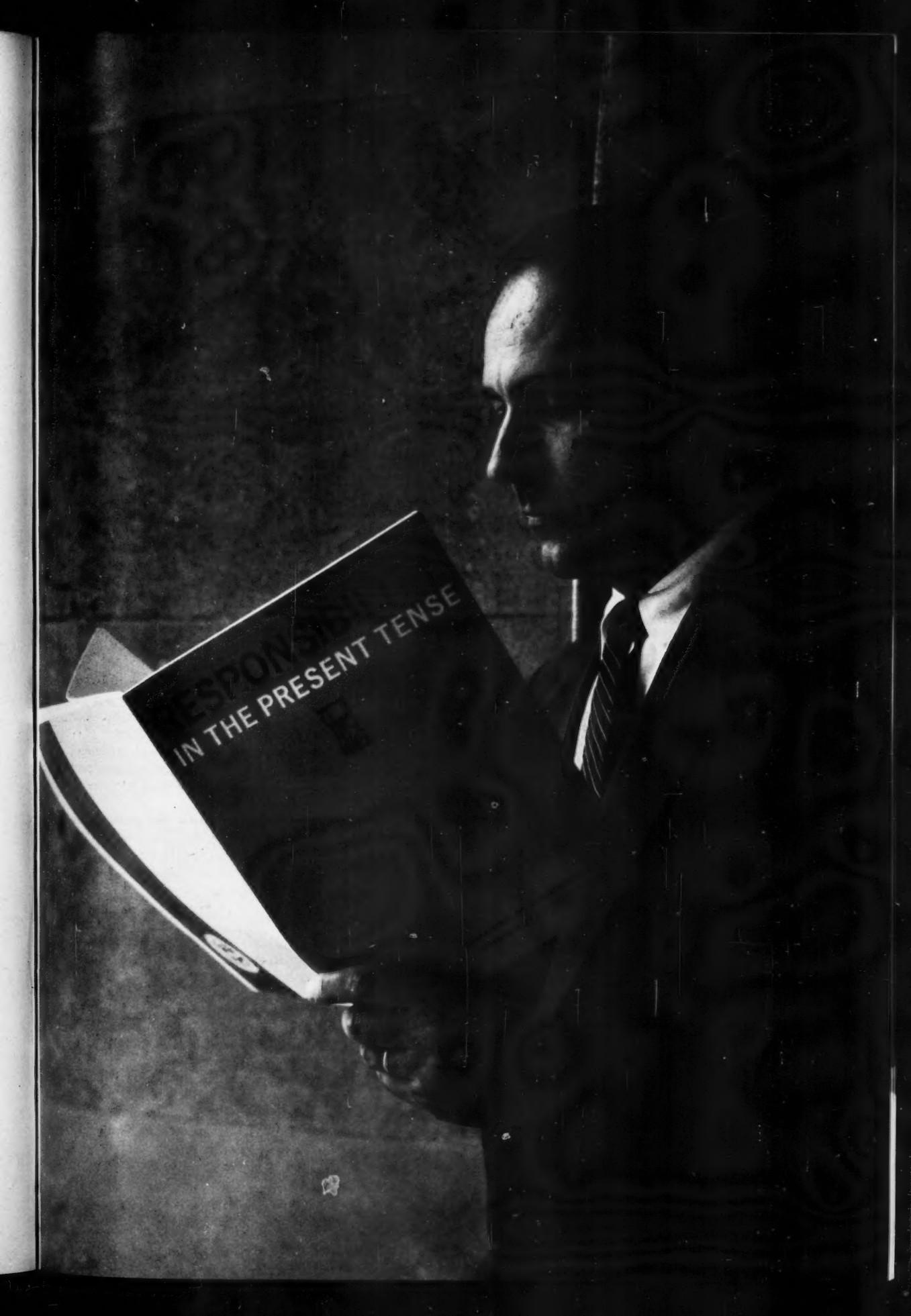
You can expect unions to demand a right to bargain over sharing profits, just as they demanded—and won—rights to bargain over pensions and health insurance.

Originally introduced by employers and condemned as paternalistic, pensions and health benefits became bargainable issues with the help of labor laws and the courts.

So it may be with profit sharing, which unions have condemned because workers don't want to lose possible income when there are no profits.

* * *

Warning to management: Given an effective voice in determining profits for profit-sharing purposes, unions will be in a position to demand share in management.

A black and white photograph of a man from the chest up. He is wearing a dark suit jacket over a white shirt and a dark tie. He is looking slightly to his left. In his right hand, he holds a book that is tilted diagonally. The book has a dark cover with the words "IN THE PRESENT TENSE" printed in a light color. The background is dark and out of focus.

IN THE PRESENT TENSE

LET EMOTIONS HELP YOU SELL

New training method stresses
knowledge of human behavior

A NEW INTEREST in sales training of all kinds is promising to make already tough competition even tougher.

The Research Institute of America, which conducts sales training all over the country, reports a 70 per cent increase in requests for courses. The American Management Association is starting its first training course this fall. Trade associations are going in for training on a broad scale.

Richard Lopata, consultant with the Dartnell Institute, is now working with 15 associations. C. M. Weld, president of Dartnell, reports: "We find there is a growing demand for sales training directors."

Much of this training will feature a new approach to selling.

"I believe that most companies have done an adequate job of training in product knowledge, customer markets and company policies and procedures," says James McNamara, director of education for the marketing division of the New York Sales Executives Club. "But most firms have been woefully lacking in training newly hired personnel in the basic human equation of salesmanship itself."

Emphasis in the new approach is on a better understanding of the customer as a human being. The new method begins by teaching the salesman to understand himself through a practical exposure to the basic principles of human behavior.

Sometimes these principles are taught with the help of a trained psychologist. Sometimes they are

taught in sweaty role-playing sessions by practical salesmen who learned most of their psychology in the school of hard knocks and gleefully criticize each other in re-enactments of real sales situations.

Those who have adopted the method—in large and small companies alike—say it can be developed and practiced with or without the formalized procedures of academic psychology.

Whether simple or elaborate, all the courses use group conferences and role-playing. The participants say that this cooperative effort really deepens their knowledge of the customer as well as giving them a better insight into themselves.

Thousands take courses

A recent survey reveals that the new movement has already had a surprising impact.

Two of its main practitioners are Drs. J. S. Schiff of Pace College and W. J. E. Crissy of Michigan State University, chairman and cochairman of the Graduate School of Sales Management conducted by the National Sales Executives. They have exposed 2,000 executives to their sales training ideas.

Perhaps the best known advocate of applying the behavioral sciences to salesmanship training is John McCarthy, consultant on marketing personnel for General Electric. The McCarthy method, known as Sales Situation Management, gives the salesman a thorough course in the sociology of human relations.

"Our object," McCarthy says "is better to serve the



**John McCarthy,
General Electric:**

"Salesmen used to contend that people didn't buy turbines on the basis of emotion. I have maintained that they do."



**Prof. John S. Schiff, NSE
School of Sales Management:**

"We have spent billions training salesmen. The next step is some fundamental research into the nature of salesmanship itself."



**William Glenn,
Sylvania Electric:**

"We study the successful salesmen and apply their methods, plus conference techniques where salesmen actually teach each other."

customer by understanding him as a human being. That's the real meaning of the term 'customer-oriented.' Unless you can understand the other fellow, how can you orient yourself to his needs, problems and viewpoint?

"We buy to a large extent today on the basis of psychological needs. Cars, for example, are much alike and we get about the same value from any one of several companies. For most people, the car they buy is a means of personal expression. So you've got to find out what the customer is like as a person in order to sell him."

The course takes three days for its original presentation and it is then followed up at intervals in the field. The complete program runs 100 hours or more.

"In three years' application of John's course, we have enrolled 5,000 people," reports Jack Spencer, manager of GE's Marketing Personnel Service, to whom Mr. McCarthy reports. "Besides these, there are about 15,000 people in the company's marketing activity and about 50 per cent of these will eventually participate."

"The nub of the McCarthy idea is to involve the salesman with other salesmen," says Mr. Spencer. "So he's designed it to have small groups of 12 to 15 people in conference and role-playing sessions. We have 240 of these leaders, most of them district managers. We choose men who are good salesmen or sales managers themselves, then train them in conference techniques."

In presenting the course as a whole, Mr. McCarthy breaks it down into six general headings:

1. *Introductory talk*: "Why Are We Here?" (two hours). Description of the new market, its complexity, more sophisticated nature of the buyers, technical nature of products and product lines.

2. *The nature of sales work* (two hours). This is an inspirational session emphasizing the importance of salesmanship as a thing that has made America great.

3. *The psychological aspects of selling* (12 to 15 hours). Analysis of the essential elements of human behavior applied to the sales situation. Here the trainee is shown how ethical conditioning, basic urges, mental images of the company's product, past experiences, self-image, hearsay, status needs and social conditioning affect the customer's viewpoint. On the basis of these effects, the customer takes action in terms of attack, evasion, retreat, submission, substitute act or agreement.

4. *Estimate of the selling situation* (three hours). How to size up the customer's objectives and goals, gather and analyze marketing intelligence, develop sales strategy and plan opening tactics.

5. *Presale preparation* (three hours). Theory and practice of recognizing and evaluating significance of facts and applying the sales strategy best adapted to each situation on the basis of individual judgment.

6. *"Anatomy of a sale"* (up to 50 hours). Discussion of 200 selling obstacles and 85 selling prescrip-

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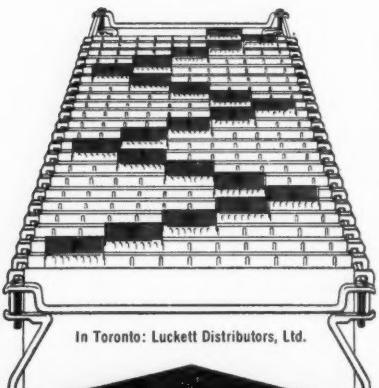
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continued

tions. This is the "how-to-do-it" of the course, the practical application of the psychological principles.

Mainly as a result of talks to associations of sales training executives, the "McCarthy system" has already become widely known. A flood of requests for further information has rolled in.

"People used to laugh at psychology in business," Mr. McCarthy says, "but now they are coming around to a new way of thinking."

"We have been rewarded by the attitude of salesmen," he explains. "They used to contend that people didn't buy turbines and defense systems on the basis of emotion. I've always maintained that they do. Many a big purchaser has gone to the competition because he thought the salesman wasn't giving him enough personal attention."

Enthusiastic letters from the field indicate that salesmen have bought the idea completely. Mr. McCarthy says it's surprising how many salesmen say this training has given them an invaluable new insight into themselves.

A typical reaction is contained in the testimonial letter voluntarily submitted by Louis Kalman of GE's computer division:

"The most significant thing that I learned from the psychological aspects of selling," he said, "was the real meaning of self-control. Now, when a dealer starts shouting, I find that I am too busy trying to analyze the man and give him the right answers to allow my own blood pressure to get out of hand. I feel that I know what makes the man tick and am better able to cope with the situation."

Perhaps the most striking example of how this new insight brought about a change is reported by John Coppinger, who is very active in GE's computer department.

"We had one salesman who was absolutely impossible" says Mr. Coppinger. "He was smug, self-centered, conceited and utterly inconsiderate of other people. As he went through our course, he became disturbed at what it revealed to him of his own behavior. He developed a great interest in the psychological aspects and came in for supplementary talks.

"In time he changed his whole attitude toward life, began doing things for others, and dropped his objectionable habits. A year later his wife wrote to thank me for what

had happened to her husband and said that it has made him one of the best-liked and most successful salesmen in his department."

Mr. Coppinger performed a similar service for one prospect, not only turning him into a permanent customer but altering his whole personal life. To overcome an inferiority complex, this man had developed a compensatory drive that made him head of a multimillion dollar operation but unfortunately turned him into a martinet roundly hated in his company and caused a domestic relations problem at home. In calling on this man with his supervisor, Mr. Coppinger told the prospect bluntly that his behavior was insufferable.

Problems solved

Apparently this was exactly the right approach, because the prospect telephoned his critic three hours later, invited him to dinner, and started a heart-to-heart talk on his personality problems which lasted until five o'clock in the morning. This talk was the first of many through which Mr. Coppinger influenced the man to change his personality. The erstwhile tyrant became a leader in community service and instituted improvements which made his organization a model of good management. Mr. Coppinger's department enjoys a standing order today.

Mr. McCarthy's files are packed with results in terms of customers. One goes back to the days when a certain customer was starting in business. He had a number of problems and GE sent an engineer to help him. Then a crisis arose in one of the bigger customer companies and the engineer had to be pulled off to help handle it. This caused the little man to fume for years. He would let GE salesmen in only long enough to insult them. Finally they said, "What's the use?"

When sales training sessions showed up this customer's behavior for what it really was—a case of distorted resentment with overtones of subconscious hostility—the salesman on the job asked himself, "Why have I always let this man infuriate me?" He tried another call.

Later he reported, "For the first time I was able to talk with this fellow and not let my emotions get in the way." After letting the man talk himself out, the salesman presented a custom-tailored plan of action that his now relatively peaceful ex-foe had to recognize as a special service personally engineered for him. Convinced of the com-

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HELP YOU SELL

continued

pany's interest, he signed and eventually came to regard the salesman as a staunch friend.

A simpler approach than Mr. McCarthy's is taken by Mal Shaw of James O. Rice, sales training consultants, of New York.

"An area such as sales is typically characterized by intense interpersonal relationships," he says. "It is our belief that the most effective learning occurs when the salesman lives the lesson and learns by experience, which may be simulated."

Mr. Shaw divides his trainees into groups with no more than 15 participants whose job is to see a situation through the eyes of others. In this leaderless group the salesmen deal freely with one another. The trainer merely observes as the participants go through a period of role-playing in which one man is the customer, another is the salesman and, under certain circumstances, others members of a buying group. Later they exchange roles.

This process promotes frank criticism. Typical are such unkind cuts as these:

"I wouldn't buy a thing from you."

"You begin every other sentence with 'I'"

"You don't give a damn about the other guy," or "Cripes, you'll never sell this guy anything if you're going to talk about his wife and kiddies all day."

At the end of a day's session, one man said to another: "I see a lot of me in you."

One of the most valuable results of action training, according to Mr. Shaw, is the help it gives salesmen in overcoming their fear of rejection.

"This fear, which is common to all of us, takes shape in the salesman," he says, "in an unconscious resistance known as 'call reluctance' where the salesman fails to make enough calls to keep his average up. Or he may fail to see the right man who, he fears, will turn him down.

"The fear of rejection fades when a man sees others being rejected in role-playing sessions and finds that they don't like it either. He sees how they handle such situations, and this supplies a 'force for change' through which a man is able to make himself do things differently."

"One salesman with whom we worked was able to increase his calls by more than 75 per cent. His sales went up dramatically."

Salesmen are also learning that

the prospect suffers from something which might be called "purchase reluctance." This can spring from inferiority feelings or fear that a prolific talker will take advantage of him. Again, it can simply be a normal revulsion to too much talk, of impatience with lazy salesmen.

This is borne out by a recent survey of purchasing agents who say that 75 per cent of their callers waste too much time on chit-chat. Fifty per cent rely too much on misguided attempts at personal relationships, 31 per cent try to bypass them for higher-ups and 59 per cent don't bother to learn the customer's needs.

Drs. Schiff and Crissy, who also act as consultants, have given courses for many trade and professional organizations, and for more than 40 companies, including Sylvania, Pfizer, Westinghouse, and divisions of du Pont. They apply an expert knowledge of psychology to the science of selling; however, their program is broad enough to encompass knowledge of people as well as knowledge about products, services and markets.

Dr. Crissy, in collaboration with Harold Cash, marketing consultant specializing in motivation research, is the author of a paperback series of books, entitled "The Psychology of Selling," extensively used by psychologically oriented sales-training directors. The authors say a salesman may apply basic psychological principles to find out what the customer is up to. They include:

1. *Projection*—the tendency of a person to attribute his thoughts and feelings to others. The term was originally applied by Sigmund Freud, who found that, when a person felt anxiety or frustration due to a weakness within himself, he could relieve his feelings by pointing out this same weakness in others. Thus, a salesman, without realizing it, may assume that his prospects will buy his product or service for the same reason he would buy it. This awareness at the right time may mean the difference between a rejection and a sale.

2. *Compensatory behavior*—designed to cover up a real situation. A buying executive rejected by his colleagues may have no real authority to make decisions. So he may act particularly self-sufficient but become evasive when a decision is sought. When a salesman recognizes this behavior, he can take corrective steps.

3. *Positive and negative adjustment*—positive adjustment is char-

"Trial-and-error digging is a dog's life"



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HELP YOU SELL

continued



JUST SITTIN'?

"There are two ways to get to the top of an oak
climb it . . . or
sit on an acorn.

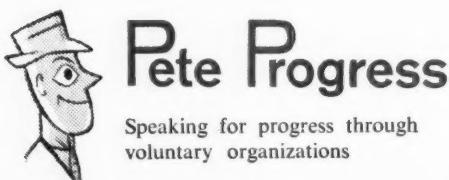
"And there are two ways a community can reach the goals of greater progress

actively climb towards those goals through the cooperative energies of a strong Chamber of Commerce . . . or just sit still, hoping that natural forces will bring improvements eventually.

"Pretty obvious that the town whose inhabitants are just sittin' and hopin' will have a long, long wait.

"But when a local chamber has an active core of energized businessmen, seriously working for better schools, streets, playgrounds, parking and all the rest, progress can be reached in a hurry.

"Moral: Don't be a sitter. That acorn may never take root. "Help your community to do its own climbing, by combining your energies with others working in and through your local Chamber of Commerce."



acterized by purposefulness and efficiency. In negative adjustment we may attack the person in our path (direct aggression) or we may take out our feelings on someone not immediately concerned (displaced aggression). In direct aggression, a salesman may lose his patience with a customer. Or, on returning to the office after a bad day, he may insult his secretary. A salesman who understands these processes in himself can deal with them when they arise in customers.

The ideas of Drs. Schiff and Crissy are extensively applied in what Sylvania Electric calls its Successful Selling Technique, which is now training some 500 salesmen.

"Our first step is to conduct surveys and find out what is needed," says William Glenn, director of sales management development. "In these surveys we study the most successful salesmen and apply their methods. We use a conference technique by which the salesmen actually teach other and then go into role-playing sessions which are highly popular. At first they were all inclined to be reticent, but now they are eager to perform."

How Sylvania's technique works in practice is illustrated by an instance involving Curtis Oakes who sells out of Richmond. At a role-playing session during a recent national sales meeting, Mr. Oakes' district manager took the part of a major customer whom Mr. Oakes had lately found reluctant to buy although Sylvania was offering the same type of product at the same price as its competitor.

The role-playing session brought out one of the customer's attributes after another: He was outspoken, more than usually aggressive, but at the same time sentimental, and capable of strong personal attachment, which included a solid feeling of friendship for Sylvania. He was price-conscious but, in the light of his other traits, inclined to be grateful for any personal service or advice.

"When the group discussion was over," Mr. Oakes reported later, "I put in a long-distance call to the customer then and there. I made it clear that we all thought a lot of him and had worked out a distribution plan ideally adapted to his needs. I had never analyzed an account in this new way and I countered all of his objections without hesitation, I was so confident

that I had the right combination.

"It turned out I was right. The man gave me a \$7,500 order right there on the phone."

McKesson and Robbins has been developing behavioristic sales training in its chemical department over a period of six years under Ray Cook, assistant vice president in charge of manpower development.

"Sales management has been concentrating too long on things," says Mr. Cook. "We're trying to balance the things and the people.

"Personality is a great factor in our type of selling. Our salesman has to wear well. He must be a problem solver who senses the customer's feelings and acts as a sort of assistant buyer working to satisfy the customer's needs. We feel that the salesman can't do this unless he knows himself and understands how his behavior influences the prospect.

"We try to teach the elements of conscious and unconscious behavior—or voluntary and involuntary behavior, to put it in more popular terms—and tell the salesman what to do about common situations. We try to teach them what to do when they encounter blind spots, negative reactions, misplaced aggression, or evasions in a prospect. We teach them that objections are not always valid—that they're often smoke screens for some hidden emotional reaction—prejudice, illogical opinion or some unrealized emotional need.

"We are exposing 250 salesmen to this kind of training. They eat it up."

A recent sale shows how the trainees work.

"On a large industrial account the purchasing agent always insisted that we bid," he recalls. "Then if we won the bid he'd want the merchandise yesterday. Finally, with insights he'd picked up in our training courses, our salesman set out to break the impasse. He sized up this fellow as a man with an abnormally strong feeling of insecurity which came out in a distrust of all the companies involved. The salesman had to create enough rapport to make it possible for the purchasing agent to feel that his confidence would be well placed in him. This done, our man was able to convince his prospect that he should go on a year's contract which guaranteed to keep the customer competitive.

"If our salesman hadn't picked up the psychological insights from the training course," says Mr. Cook, "he wouldn't have understood enough of what he was dealing with to be able to pick his way through



"Fed up with sticking stamps?"

"Ours is a personal service business, full of detail. Every customer gets individual attention. Adhesive stamps were one more annoying detail. They curl up, stick together, get lost. And it's hard to prevent office postage being used on personal mail. So we got a postage meter. It's a great convenience. Gives me postage control. And I think meter-stamped mail looks more businesslike."

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No matter how small your business you can have all the advantages of metered mail. The DM, desk model meter for the small mailer is easily worth its small cost for the convenience alone. There is no minimum mail requirement. One-third of DM users average less than \$1 a day in postage, but wouldn't be without the meter. There are other meters for larger mailers. Call any Pitney-Bowes office for a demonstration in your office, without obligation. Or send coupon for free booklet.



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Advertisers in this issue • October 1961

	Page
Aetna Life Insurance Company	13
Remington Advertising, Springfield, Mass.	
American Telephone & Telegraph Company, Business Equipment Sales	1
N. W. Ayer & Son, Inc., Philadelphia	
American Telephone & Telegraph Company, National Yellow Pages Service	115
Cunningham & Walsh, Inc., New York	
Anso Div., General Aniline & Film Corp.	70
Lennen Newell, Inc., New York	
Armeo Drainage & Metal Products, Inc.	56, 57
Marsteller, Rickard, Gebhardt & Reed, Inc., Pittsburgh	
Automated Gift Plan, Inc.	64
H. King Services Corporation, New York	
Bank of America	4th cover
Johnson & Lewis, Inc., San Francisco	
Bankers Box Company	81
Frank C. Jacobs Advertising, Inc., Chicago	
Beech Aircraft Corporation	14
Bruce B. Brewer & Company, Kansas City, Mo.	
Butler Manufacturing Company	78, 79
Asbury, Finlay, Marley & Hodgeson, Inc., Chicago	
Carrier Air Conditioning Company	17
N. W. Ayer & Son, Inc., Philadelphia	
Chamber of Commerce of the U.S.	104, 105, 112
Chase Manhattan Bank	10, 11
Compton Advertising, Inc., New York	
Chevrolet Division of GMC (Trucks)	54, 55
Campbell-Ewald Company, Detroit	
Colorado, State of	75
William Kostka & Associates, Inc., Denver	
Dodge Division of Chrysler Corporation (Cars)	86, 87
Batten, Barton, Durstine & Osborn, Inc., Detroit	
Dodge Division of Chrysler Corporation (Trucks)	4, 5
Batten, Barton, Durstine & Osborn, Inc., Detroit	
Dodge, F. W., Corporation	111
G. M. Basford Company, New York	
Dow Jones & Company, Inc.	68
Batten, Barton, Durstine & Osborn, Inc., New York	
Duke Power Company	65
Ayer and Gillett Advertising, Charlotte, N. C.	
Eastman Kodak Company, Verifax	53
J. Walter Thompson Company, New York	
Eaton Paper Corporation (Nascon Specialty Products Div.)	12
Jules L. Klein Advertising, Springfield, Mass.	
Ebco Manufacturing Company	73
Geyer, Morey, Madden & Ballard, Inc., Dayton	
Equitable Life Assurance Society of the U. S.	25
Foote, Cone & Belding, Inc., New York	
Executive, Inc.	62
G. M. Basford Company, New York	
Firestone Tire & Rubber Company	22
Campbell-Ewald Company, Detroit	
Florida Development Commission, Industrial Div.	91
Alfred L. Lino & Associates Advertising Agency, St. Petersburg, Fla.	
Ford Motor Company, Trucks	18, 19
J. Walter Thompson Company, Detroit	
Friden, Inc.	66
Richard N. Meltzer Advertising, Inc., San Francisco	
Gestetner Corporation	12
Bruce Angus Advertising, New York	
Graphic Systems	81
Caswell Advertising Agency, Yanceyville, N. C.	
Gray Manufacturing Company, Audograph	15
Lawrence C. Gumbinner Advertising Agency, Inc., New York	
Hardware Mutuals	29
Roche, Rickard & Cleary, Inc., Chicago	
Harry & David	81
Guild, Bascom & Bonfigli, Inc., San Francisco	
Hartford Insurance Group, The	45, 46
McCann-Marschalk Company, Inc., New York	
Hertz Corporation, The	48, 49
Needham, Louis & Brorby, Inc., New York	
Heyer, Inc.	68
The Biddle Company, Bloomington, Ill.	
Hughes Tool Company, Aircraft Div.	92, 93
Foot, Cone & Belding, Inc., Los Angeles	
Insurance Company of North America	20, 21
N. W. Ayer & Son, Inc., Philadelphia	
International Business Machines Corporation, Electric Typewriter Div.	99
Benton & Bowles, Inc., New York	
International Harvester Company, Inc., Farm Equip.	3rd Cover
Asbury, Finlay, Marley & Hodgeson, Inc., Chicago	
International Harvester Company, Inc., Motor Truck Div.	30
Young & Rubicam, Inc., Chicago	
Kentile, Inc.	2nd cover
Benton & Bowles, Inc., New York	
Lathem Time Recorder Company	47
Adams-Alison Div., Burke Dowling Adams, Inc., Atlanta, Ga.	
Lincoln National Life Insurance Company	80
Mazon, Inc., Detroit	
Listo Pencil Corporation	81
Cunningham & Walsh, Inc., San Francisco	
Monroe Calculating Machine Company, Inc.	71
Ellington & Company, Inc., New York	
Morton Salt Company	103
Needham, Louis & Brorby, Inc., Chicago	
Mutual Life Insurance Company of New York	97
Benton & Bowles, Inc., New York	
National Truck Leasing System	75
W. S. Kirkland, Advertising, Chicago	
New York Life Insurance Company	50
Compton Advertising, Inc., New York	
Norge Sales Corporation, Sub. of Borg-Warner Corp.	110
Keyes, Madden & Jones, Advertising, Chicago	
Occidental Life Insurance Company of California	16
Fuller & Smith & Ross, Inc., Los Angeles	
Ohio National Life Insurance Company	81
The Lewis W. Selmer Company, Cincinnati	
Olin Aluminum, Olin Mathieson Chemical Corporation	26
Doyle Dane Bernbach, Inc., New York	
Olympia Typewriter Div., Inter-Continental Trading Corp.	82
Main-Ellis, Inc., New York	
Oxford Filing Supply Company, Inc.	108
Kelly, Nason, Inc., New York	
Pinkerton's National Detective Agency, Inc.	63
Gray & Rogers, Philadelphia	
Pitney-Bowes, Inc.	113
L. E. McGivens & Company, Inc., New York	
Public Service Electric & Gas Company	52
Williams and London Advertising, Newark, N. J.	
Recordak Corporation	109
J. Walter Thompson Company, New York	
Royal Typewriter Company, Div. of Royal McBee Corp.	67
Young & Rubicam, Inc., New York	
Smith-Corona Marchant, Inc.	88, 89, 90
Batten, Barton, Durstine & Osborn, Inc., New York	
Teletype Corporation	74
Marsteller, Rickard, Gebhardt and Reed, Inc., Chicago	
Travelers Insurance Company, The	72
Young & Rubicam, Inc., New York	
Union Pacific Railroad	85
Geyer, Morey, Madden & Ballard, Inc., Chicago	
Volkswagen of America, Inc. (Trucks)	77
Doyle Dane Bernbach, Inc., New York	
Wagner Electric Corporation	75
Arthur R. Mogge, Inc., St. Louis	
Western Union Telegraph Company, Inc.	100
Benton & Bowles, Inc., New York	
Yawman & Erbe Manufacturing Company, Inc.	51
The Rumill Company, Inc., Rochester, N. Y.	
Western Airlines	69
Batten, Barton, Durstine & Osborn, Inc., Los Angeles	
Nation's Business	69

HELP YOU SELL

continued

a complicated behavior problem and come out, as he finally has, with a permanent contract."

Regardless of the increase in sales training, many leaders in the field are vastly dissatisfied with what is being accomplished. One of these is Dr. Schiff.

"America has spent billions training and preparing salesmen," he says. "But what have we got in the way of a real solid and organized body of training knowledge? Nothing."

"We are not applying a lot of things we've learned in the social sciences to salesmanship. The next step is to do some really fundamental research into the nature of salesmanship itself. Salesmanship should be studied in the same way that we are studying advertising."

A strong plea for the broad development and teaching of salesmanship in universities was recently presented by Dr. Steven J. Shaw, professor of marketing at the University of South Carolina.

Whether salesmanship is taught on or off the campus doesn't alter the opinion of those who see the need for a clinical study of the actual process of buying and selling. In the opinion of Dr. Schiff:

"A basic investment in the development of sound selling and sales training principles could mean the difference between a faltering and steady profit curve."

Marketing authorities familiar with the results of the new approach to sales training say that every sales manager will have to learn to train his people along these lines in order to keep his competitive position. They believe that the sales manager who wants to keep up with the times can keep himself informed in the behavioral sciences by general reading and studying. Then, when he has sufficiently broadened his information, he can apply this knowledge in new forms of sales training.

In any case, the most important teaching influence seems to be the interaction of the salesmen on each other in practice sessions—deepened with a practical working knowledge of behavioral science.

—PHILIP GUSTAFSON

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SHOULD YOUR CITY'S GROWTH DEPEND ON WASHINGTON

YOUR CITY would undoubtedly have more adequate sewers, better water supplies, wider streets if you could afford to pay for them. So would every other city. The lack of funds to meet growing municipal needs is a universal complaint.

It is also a political opportunity which Washington has been seizing piecemeal but is now ready to develop to its fullest.

The proposed instrument is a new Cabinet Department of Urban Affairs and Housing. Bills to establish such a department are ready for Congressional action in the next session. To this Department, hard-pressed mayors would direct their pleas for money to develop local resources. The wise Secretary would plan, control and coordinate the spending of federal money for town and city growth.

Some of this spending is now being handled by assorted federal agencies which would be combined in the new Department. In an effort at self-promotion, these agencies are sending out a traveling troupe of government officials to explain their subsidy programs and urge city officials to take advantage of them. Oklahoma's Governor Edmondson has naively ex-

plained the advantages to towns that accept the offer: "Idle federal funds will be put to work at little cost and involving no federal appropriations."

To those who wonder why idle federal funds were not left in the communities in the first place, a sordid answer presents itself:

The new Department would provide an effective way to give centralized government control over the lives of the people.

The Secretary's idle funds must come originally from the communities he is sworn to help. If all communities lack money for development, he can give to one only at the expense of others. He would be untrue to the Administration of which he was a part if he did not reward politicians willing to show their gratitude and areas generous in support of administration programs.

The administration that controlled Washington would have a powerful purse-string grip on every community improvement program in the country. This would give it nearly complete control over local politics.

Self-determination and the importance of local government would be gone forever.

